The Economist

20010519

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS

BUSINESS
Management
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

RESEARCH TOOLS

AUDIO

DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver

CLASSIFIED ADS

The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
EuroFinance Conferences
Economist Diaries and
Business Gifts

EIU onlinestore

Advertisement

Economist Conferences

Fourth China Branding Roundtable

Winning moves for a changing game

September 18th-19th 2007 Beijing

Fed up with gravy trains, salami tactics and upsetting the apple cart?

Print Edition May 19th 2001

A new dawn for nuclear power?
George Bush wants to revive nuclear energy ... More on this week's lead article EE

The world this week

Business this week EE
Politics this week EE

Leaders

Nuclear power
A new dawn for nuclear power? EE

Italy's election
So, Mr Berlusconi . . . EE

Nationalism and defence in Japan
A normal country EE

Macedonia
Last piece in the Balkan tragedy EE

Conflicts of interest
Going for gold EE

West Africa
The war that spread EE

Letters

On war crimes, Britain's election, Sudan, football, Europe's Council of Ministers, drugs, old girls EE

Special Report

A renaissance that may not come EE

United States

George Bush's record
The Texan parable EE

The economy
Another shot in the arm EE

Apology – American justice and the FBI EE

Lexington
God and man in Washington EE

Medical marijuana
Please let us EE

Alaska and the cruise ships
The things they leave behind EE

Energy policy
Not half bad EE

The Americas

Mexico
Slowing economy, quickening politics EE

Cuba's debt
Slippery, shapeless and slow to be repaid EE

Venezuelan politics
Chavez signals to the left EE

Brazil and AIDS drugs
A cure for high prices EE

Asia

Japan
A turn to the right? EE

Japan's new foreign minister
A new broom in the Gaimusho EE

India's elections
Hope and glory for Congress EE

Asian economies
The east is in the red EE

Taiwan
Beginners on trial EE

The Philippines' elections
Middle-class rage EE

America and North Korea
Ready, steady, talk EE

China's press
Let a hundred papers boom EE

Europe

Italy's election
Berlusconi wins. And now? EE

Italy's voters and Italy's democracy
Berlusconi or Brussels EE

Spain's Basque election
Aznar hurt, ETA clobbered EE

Charlemagne
Ilir Meta EE

Turkey's economy
Harsh medicine EE

Pluralism in Russia
The bill's on me, says Berezovsky EE

The German economy
Sputtering, but not dying EE

Britain

General election
The politics of Bedpan man EE

Campaign diary
On the trail EE

Poll
Wrong issues, wrong leader EE

Self-help books
The road well trodden EE

Bagehot
Promises, promises EE

Politics and the weather
Praying for rain EE

The West Country
Yellow in peril EE

Tax and spending
War of numbers EE

Drug prices
Small is vulnerable EE

Articles flagged with this icon are printed only in the British edition of *The Economist*

International

Israel's army
A new, perhaps dangerous, freedom EE

Sierra Leone's civil war
Peace-building or appeasement? EE

Nigerian crime
Beware the Bakassi Boys EE

Senegal's new government
A win for Wade's men and women EE

Angola's civil war
Never say never EE

Previous print editions

May 12th 2001
May 5th 2001
Apr 28th 2001
Apr 21st 2001
Apr 14th 2001

More print editions and covers »

Subscribe

Subscribe to the pri
Or buy a Web subsc
full access online

RSS feeds

Receive this page by

Advertisement

A survey of European Union enlargement

Europe's magnetic attraction EE
Reasons of state EE
Joining the west EE
The wealth effect EE
End-game EE
The limits of Europe EE
Offer to readers EE

Business

E-strategy Brief: General Electric
While Welch waited EE

B2B exchanges
Time to rebuild EE

Spain's Zara
Floating on air EE

Face value
Foundry father EE

Prescription drugs
Protection racket EE

Coffee-shop chains
Abuzz EE

Polish superstores
Hype on the Vistula EE

Consumer electronics
Let the games begin EE

Finance & Economics

China's state banks
An outbreak of honesty EE

Wall Street
Mopping up the mess EE

Foreign listings in America
A long arm for securities law EE

Economics focus
Fuelling discontent EE

A human trading error
Rogue blunderer EE

New trends in accounting
Touchy-feely EE

Securities settlement in Europe
Clearstream and muddy waters EE

Science & Technology

Conflicts of interest
Outrageous fortune EE

Embryonic development
Chipping away at the truth EE

Douglas Adams
So long, and thanks for all the fish EE

Electricity from waves
Power buoys EE

Books & Arts

Music festivals
The sounds of summer EE

American history
Dear Mr President EE

British politics
Strong but themeless EE

Bike messengers
Death defying EE

Japanese writing
Tokyo blues EE

Literary lives
Only omit EE

Global capitalism
The third way (an encore) EE

American spying
Getting an earful EE

Obituary

Nicos Sampson EE

Economic and Financial Indicators

Overview EE
Output, demand and jobs EE
Prices and wages EE
World music sales EE
Official reserves EE
The Economist commodity price index EE
Stockmarkets EE
Trade, exchange rates and budgets EE
Money and interest rates EE

Emerging-Market Indicators

Overview EE
Foreign investments EE
Financial markets EE
Economy EE

Advertisement

The new Economist scre saver is now available

Advertisement

Classified ads

Jobs

International public health specialist
Chemonics seeks a public health professional with sectoral expertise and ext....

Business / Consumer

100-year anniversary
The Swiss National Bank 1907–2007 ....

Tenders

Request for proposals - Audit Services
REQUEST FOR PROPOSALS - AUDIT SERVICES 1. The Science and Techn....

Jobs

Specialist Advisory Position - Education
SPECIALIST ADVISORY POSITION – EDUCATION PORT MORESBY, PAP....

Business / Consumer

#1 rated internet business looking for professional consultants No previous technical experience required.

Tenders

REQUEST FOR EXPRESSION OF INTEREST FROM STRATEGIC INVESTORS
GOVERNMENT OF GHANA GHANA TELECOMMUNICATI..

Sponsors' feature

About sp

Copyright © The Economist Newspaper Limited 2007. All rights reserved. Advertising Info | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

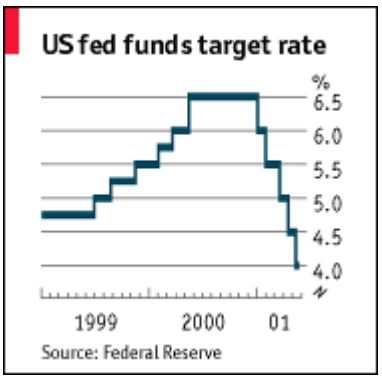
Produced by = ECO PDF TEAM =
Thanks xxmama

Business this week

May 17th 2001
From The Economist print edition

Going down

As expected, America's Federal Reserve **cut interest rates** by half a percentage point to 4%, the fifth cut this year, taking the rate to its lowest level for seven years. The Fed is continuing to respond assertively to more evidence of the American economy's slide. Industrial production was down by 0.3% in April compared with March, more than predicted. The consumer-price index rose unexpectedly slowly, by 0.3% in April and 3.3% year-on-year.



See article: The Fed's interest-rate cut

The **Dow Jones industrial average** closed above 11,000 for the first time since September, after the Fed's latest interest-rate cut.

After **Turkey**'s parliament agreed to sell off the state telecoms company and reform the banking system, the IMF approved an $8 billion stand-by credit.

Inflation in the **euro area** rose to 2.9% in the year to April. The news was released less than a week after the European Central Bank had surprised markets with a quarter-point cut in interest rates.

Hit by weaker exports to the United States, **Mexico**'s economy slowed sharply in the first three months of this year, according to figures that were released this week. The government of Vicente Fox has responded to the slowdown with budget cuts.

See article: Problems begin for President Vicente Fox of Mexico

President Hugo Chavez of **Venezuela** denied reports that he was planning currency controls, but said he might seek emergency legislative powers.

See article: Is Venezuela's Chavez turning left?

In the markets

The **London Stock Exchange** took a nose dive, with the FTSE 100 falling by 2.2%, at the end of trading on May 14th, and then largely recovered the next day. The reason for the volatility: an extra zero accidentally added to a £30m ($43m) sell order at an investment bank, thought to be Lehman Brothers. An investigation is taking place.

See article: A trading cockup sends London's market

Scrutiny of the **dodgy dealings** in the bull market carries on. America's Securities and Exchange Commission charged Sunbeam, an appliance maker, and its auditor, Arthur Andersen, with rigging financial reports to beef up sales figures. Another case alleged insider dealing by a prominent Mexican family. Inquiries continued into Wall Street practices in the market for initial public offerings.

See article: A spate of investigations on Wall Street

André Lussi, chief executive of **Clearstream**, a large European clearing bank, temporarily stepped aside to deal with legal inquiries. His departure prompted speculation about a possible rationalisation of Europe's plethora of clearing and settlement agencies.

See article: Troubles at a European clearing organisation

The **rich are getting richer**, according to a report from Cap Gemini Ernst & Young and Merrill Lynch. The wealth of dollar millionaires—those with over $1m to invest—rose by 6% to $27 trillion in 2000 despite crumbling stockmarkets around the world. The number of millionaires grew by 2.9% to 7.2m, but 80,000 “minute millionaires” appeared and then disappeared with the dotcom boom and bust.

Dial M for merger

Telenor, Norway’s state-controlled telecoms company, said it was in talks on a merger with **Tele Danmark** through the acquisition of 42% of the company owned by America’s SBC Communications. Danish law would require Telenor to buy the rest of the Danish company, which would create a Nordic telecoms giant worth some *euro*18 billion ($16 billion).

AT&T and **BT** again raised the possibility of integrating their business-telecoms services as part of a restructuring at both firms. But BT has not ruled out selling its stake in Concert, the pair’s business-telecoms joint-venture, as a better solution to its debt problems.

BT’s intention to be the first to launch a third-generation mobile telephone service, albeit on the Isle of Man, suffered a blow. Technical problems with handsets will keep tech-savvy Manx residents from the mobile Internet for another three months. NTT DoCoMo ran into similar problems and recently announced the delay of its service on a slightly bigger island: Japan.

Cable & Wireless, a previously dormant British telecoms company, made inroads into its £6 billion ($8.6 billion) mountain of cash. It bought Digital Island, a struggling American Internet company, for $340m and promised to inject up to $700m more as part of a strategy to become a leading Internet-services firm.

Sony, a Japanese electronics giant, gained allies to play alongside with against rivals, **Nintendo** and **Microsoft**, which is soon to launch its Xbox gaming system. The creators of the PlayStation 2 unveiled several alliances including ones with **America Online**, to provide Internet services through its console and **RealNetworks**, a streaming media firm.

See article: Video-game wars

Gun culture

Tomkins, a British conglomerate hit last year by accusations of corporate excess, is to get shot of Smith & Wesson, an American handgun maker, to **Saf-T-Hammer**, an American gun-parts company, for $15m. Tomkins paid around $112m for the gun maker but will sell a firm suffering from falling sales and with contingent liabilities. Smith & Wesson’s .44 magnum starred in several films with Clint Eastwood.

Bertelsmann, a German publishing giant, accepted that Amazon had won Europe’s online bookselling battle. It announced that BOL, its attempt to compete with the American e-tailer on Bertelsmann’s side of the Atlantic, would be folded into its book club rather than go public.

Despite months of gloom among the world's car makers, Japan's **Toyota** unveiled record profits and sales for the year to March 31st.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Politics this week

May 17th 2001
From The Economist print edition

Con brio

EPA

Silvio Berlusconi and his centre-right coalition won majorities in both the lower house and the Senate in **Italy**. He promised radical solutions to the country's problems—of which (though no promises here) his own conflicts of interest are one.

See article: Berlusconi's triumph, and after

America's president, George Bush, unveiled a **national energy strategy**. It called for more coal mines, oil refineries and nuclear reactors. Critics said he had neglected conservation.

See article: Mr Bush's new energy plan

The United States and Britain drafted a new resolution on **sanctions against Iraq**, to limit imports with a military use even more strictly but allowing all others to enter freely while retaining financial control. China, France and Russia, all critical of the current sanctions, seemed likely to support the new plan in the UN Security Council.

Battling on

Palestinians marked the anniversary of Israel's creation with protests. Four Palestinians and an Israeli woman were killed. The Israeli army came close to admitting that it had earlier killed five Palestinian policemen in error.

See article: Giving Israel's army its head

An **Iranian airliner** crashed in the country's mountainous north. Iran's minister of transport, his two deputies and several members of parliament were among the dead.

Amr Musa, who has been a forceful foreign minister of Egypt, became secretary-general of the torpid Arab League.

A new government of national unity in **Macedonia** gave ethnic-Albanian rebels a "final warning" to end their uprising, but was met by renewed gun battles in the north of the country.

Representatives of the government and rebels in **Sierra Leone** signed a tentative agreement in Freetown. The rebels said they would disarm if the pro-government militia did so too. They also released 198 child-soldiers and said more would follow.

See article: A pause in Sierra Leone's war

Court reports

The execution of **Timothy McVeigh**, the Oklahoma City bomber, was postponed until June 11th when it

emerged that the FBI had failed to disclose thousands of pages of evidence. Louis Freeh, the bureau's boss, admitted to Congress that a "serious error" had been made.

See article: An apology to the FBI

General Wojciech Jaruzelski, **Poland**'s last communist leader, went on trial in Warsaw, accused of ordering soldiers to fire on shipyard workers in 1970, when he was defence minister.

An Iranian appeals court cut a ten-year sentence imposed on **Akbar Ganji** in January to six months. Mr Ganji, convicted for undermining national security, is a campaigning journalist who named a former intelligence minister as being behind the murder of dissident intellectuals.

No to violence

Electing a regional parliament, **Basque voters** clobbered the separatist gunmen of ETA, but snubbed Spain's prime minister too by strongly supporting the non-violent nationalists.

See article: After Spain's Basque election

Talks between the **EU** and the most advanced applicant countries have been postponed. Germany wants to limit movement of workers from Eastern Europe, and Spain fears losing regional funds to the new members.

Canada's opposition Alliance split. Eight of its 66 members of Parliament called for Stockwell Day, the Alliance's embattled leader, to resign, and said they would meet as a separate parliamentary group.

Supporters of Gloria Macapagal Arroyo, **the Philippines**' new president, have won control of the Senate, according to exit polls.

See article: The Philippines' elections

AP

As a "reward" to the military government in Myanmar for having talks with **Aung San Suu Kyi**, the opposition leader, Japan offered a grant of $29m towards the cost of a hydro-electric plant in the east of the country.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nuclear power

A new dawn for nuclear power?

May 17th 2001
From The Economist print edition

George Bush wants to revive nuclear energy

Get article background

THIS week looks the brightest in 25 years for nuclear power. On May 17th President George Bush unveiled his long-awaited national energy strategy, to fanfares but also furore. Much of the furore was about Arctic drilling and $3-a-gallon petrol (see "Mr Bush's new energy plan" and "Britain's remarkable petrol tax"), but in the long run the more notable feature of the new plan will be its strong support for nuclear power. This came on the heels of other good news for the nuclear cause: the Japanese government approved two new nuclear plants; and British Energy announced a path-breaking deal to take over the operation of a number of nuclear reactors in Canada.

Not one nuclear plant has been built in the United States since the infamous accident at the plant at Three Mile Island in 1979. The far more serious accident in 1986 at Chernobyl, in the-then Soviet Union, boosted an already growing anti-nuclear sentiment in Europe. Nagging doubts about safety and the environment were destined, it seemed, to doom nuclear power to the dustbin of history. Yet now the industry may get a new lease on life.

Safer, but no more popular

The whole notion of a nuclear renaissance will prompt howls of angry protest. It is not just radical greens and technophobes who fret about catastrophic accidents. Activists in countries such as Germany and Sweden are still demanding the closure of today's plants, never mind building new ones—and their governments are naturally sensitive to electoral pressures.

Yet concerns about operational safety, though understandable, do not add up to a damning case against nuclear power. On the contrary: the nuclear industry has learnt a lot about running its plants safely over the past two decades. The existing technology is now mature and well-understood. On the whole, nuclear-power plants (at least in the western world) are today safe and well-run.

Admittedly, minor accidents and slip-ups, such as those at Britain's BNFL or in Japan's Tokaimura prefecture two years ago, continue to shake public confidence. Given the unquantifiable risks that nuclear power carries, it is only right that the industry be subjected to the test of public opinion and due political process. However, this argues for exceptional vigilance, regulatory scrutiny and accountability—and not for bans or shut-downs. Those nuclear operators with a good safety record deserve to have their licences renewed, so that existing plants may run to the end of their useful lives.

The Bush administration's enthusiastic support goes a lot further than this, however. It also wants to see new plants. Proponents of new nuclear-power stations make three arguments in their favour. They will enhance energy security by lessening dependence on fossil fuels; far from being environmentally harmful, they will be beneficial because they will reduce the output of greenhouse gases; and, most crucially, the economics of nuclear power has improved from the days when it was wholly dependent on bail-out and subsidy.

Yet these arguments do not stand up to scrutiny. The claim that governments should support nuclear power to reduce their vulnerability to the OPEC oil cartel is doubly absurd. Little oil is used in power generation: what nuclear power displaces is mostly natural gas and coal, which are not only more

plentiful than oil but also geographically better distributed. Security is enhanced not by seeking energy self-sufficiency but through diversification of supplies. Creating lots of fissile material that might be pinched by terrorists or rogue states is an odd way to look for security anyway.

What about the argument that climate change might be the great saviour of nuclear power? Global warming is indeed a risk that should be taken more seriously than the Bush administration has so far done. Nuclear plants do not produce any carbon dioxide, which is the principal greenhouse gas. However, rushing in response to build dozens of new nuclear plants would be both needlessly expensive and environmentally unsound.

It would make far more sense to adopt a carbon tax, which would put clean energy sources such as solar and wind on an equal footing with nuclear, whose waste poses an undeniable (if remote) environmental threat of its own for aeons to come. Governments should also dismantle all subsidies on fossil fuels—especially for coal, the dirtiest of all. They should adopt reforms that send proper price signals to those who use power, and so reduce emissions. Global warming certainly provides one argument in favour of nuclear power: but it is not sufficient on its own to justify a nuclear renaissance.

A sunset industry

That is why the real argument over nuclear's future should rest on economics. Given the industry's history of cost overruns and wasted billions, the claim of dramatically improved economics would, if true, support a revival. Alas, as our special report makes clear (see article), the claim is dubious. The industry has certainly learnt how to run existing plants efficiently; but, like the Concorde aircraft, this depends on the capital costs having long been forgotten. And nuclear plants continue to depend on vast (and largely hidden) subsidies.

Why in the world should such a mature, well-capitalised industry receive subsidies, such as government liability insurance or help with the costs of waste disposal and decommissioning? Given the world's move to freer markets in energy, the time has surely come for governments to stop coddling this business. At a minimum, officials should make the existing subsidies more transparent. Then, if they believe some national goal is served only by nuclear power, they should ensure that all future government support is explicit—enabling it to be challenged in a democratic debate.

If the private sector wishes to build new nuclear plants in an open and competitive energy market, more power to it. As subsidies are withdrawn, however, that possibility will become ever less likely. Nuclear power, which early advocates thought would be "too cheap to meter", is more likely to be remembered as too costly to matter.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Italy's election

So, Mr Berlusconi . . .

May 17th 2001
From The Economist print edition

A triumph for Silvio Berlusconi, but not for Italy

Get article background

AT LAST, a decisive election in Italy. The voters have spoken; they have spoken clearly; and as a result the country is to have a government committed to reform, backed by comfortable majorities in both houses of parliament. Unlike so many of its predecessors, Italy's 59th post-war government will not come to office as a result of obscure party manoeuvres behind closed doors in Rome. It will not be a flaccid, directionless affair unable to take on the interest-groups that usually balk any attempts at change. It will not be beholden to tiny parties whose only concern is the self-preservation of their bosses. Though it will be a coalition, it will be a sturdy-looking one by Italian standards. With luck, it can hope to serve a full term. Moreover, it has a charismatic leader, with a vision of what he wants to do and a personal mandate from the voters to do it. *"Forza Italia!"* it is tempting to say, "Let's go, Italy!"

Tempting indeed, but there is a fly in the ointment. The man who can take the credit for this happy state of affairs is Silvio Berlusconi, and too many questions about Mr Berlusconi remain unanswered. Some of these questions concern the huge conflicts of interest that surround the elevation of Italy's richest man to the prime ministership. Others concern the business empire that has brought him to such a pinnacle, and in particular the investigations he has faced—and in many cases still faces—into bribery, tax-evasion, money-laundering and connections with the Mafia.

Admittedly, since many Italians seem unbothered by these questions, there are some issues he can usefully tackle. Italy's economy, more sluggish than any other in the euro-zone over the past five years, is burdened by bureaucracy, a sclerotic labour market and an unsustainable pension system. With his strong majority, Mr Berlusconi stands a better chance of tackling them than any predecessor. So good luck to him if he can reduce the country's 9.9% rate of unemployment and help its small firms by cutting taxes and red tape. Better still if he will risk a fight with the trade unions to fillet the labour laws and thus encourage employers to hire more workers.

As with taxes, so with spending

Trouble will follow, however, if carefree tax-cutting accompanies promised infrastructure spending and a reckless increase in pensions. Although Italy's public finances have been transformed in recent years, its public debt is still 110% of GDP and it has little room to expand its budget deficits without incurring the wrath of the European Commission, the overseer of the euro-zone's "stability and growth pact". The top priority for the incoming government should probably be the reform of the pension system, a drain on taxpayers, employers and generations yet unborn. Legislation must be passed this year, but on this subject Mr Berlusconi has been silent.

Many critics already regard the incoming government with suspicion for its attitudes towards immigrants and law and order. Umberto Bossi, the leader of the Northern League, one of Mr Berlusconi's allies, delights in excoriating asylum-seekers, Muslims and homosexuals. The National Alliance, the other main partner in the winning coalition, also contains its share of populists—unsurprisingly, since it is the heir to Mussolini's Fascists. None of this suggests a liberal approach to law and order. Yet Mr Berlusconi shows no signs of racism. More sinister is his animus against the judiciary, whose supposed political bias he blames for all the past and present prosecutions against him. His promise to give responsibility for criminal investigation to the police, who are directly subordinate to the government, at the expense of the country's 1,000 or so independent prosecuting magistrates—not all angels, by any means—is

therefore worrying.

Not so worrying, though, as Mr Berlusconi's vast conflicts of interest. Since his business empire extends into so many of the commercial and financial corners of Italian life, government action on almost anything from privatisation to private pensions is bound to affect him personally. The conflict has been most glaring, and most shameful, in broadcasting. Already in control of virtually all of Italy's private television, he will soon be able to add public broadcasting too. Privatisation could help here, but only a bit. Not even a blind trust, an option often suggested, would do much good, unless he were first to allow the sale of all his main holdings. Then the proceeds could be reinvested by the trustees into a portfolio of which he could be genuinely ignorant. Although this should have been done years ago, and is now difficult, it remains the only honourable course of action.

Oh, for some really clean hands

Mr Berlusconi's central claim is that he represents something new, and in many ways he does. His hugely successful television stations have helped to reshape Italian popular culture, and his business acumen is certainly a new ingredient in Italian political life. But his claim to represent a break with the politics of the past is nonetheless bogus: to all but the wilfully uncritical, he stands for sleaze, if not outright criminality.

Yet what Italy needs above all is an honest political system resting on an effective constitution. For years it has been apparent that the post-war constitution was inadequate; a permanently paralysed parliament, a deliberately enfeebled executive and an ever-spinning merry-go-round of ephemeral governments were all testimony to the need for a new constitution. Then, in 1992, it became clear that the corruption that all Italians thought they knew about was actually much more pervasive than they had realised. The *mani pulite* (clean hands) campaign was meant to put matters right, but at the end of it all Italy has a "new" leader whose career was built with the help of one of the most crooked of the old guard, Bettino Craxi, and who now attacks the judiciary as politically inspired. Were the new government led by an unambiguously honest politician, this would be the moment to overhaul the constitution, to reduce the power of parliament to frustrate, and to strengthen the hand of the executive. But with Mr Berlusconi in charge, such a change would be horribly mistimed. Too bad. It leaves Italy needing reform now more than ever.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nationalism and defence in Japan

A normal country

May 17th 2001
From The Economist print edition

It's fine for the prime minister to try to change the constitution, not to visit the Yasukuni shrine

Get article background

EPA

"REFORM with no sacred cows" is Junichiro Koizumi's slogan, and no Japanese cow is more sacred than Article 9 of its constitution, which renounces war. So it is entirely characteristic of the new prime minister that he aims to rewrite, or at least reinterpret, the constitution to allow Japan, like other countries, to have an army—rather than "self-defence forces"—and to use it to take part in collective security arrangements, which it currently forswears.

Unfortunately, as may also turn out to be characteristic of Mr Koizumi, this is a reform that he will struggle to achieve. Amending the constitution requires a two-thirds majority of the Diet, which he has not got: even a reinterpretation, though less controversial, has in the past involved a unanimous parliamentary resolution. Hostility to anything that smacks of militarism runs deep in Japan, not least within New Komeito, the main partner in Mr Koizumi's ruling coalition. But assuming that he can swing it—and the voices calling for Japan to be treated as a normal nation are growing—this is a reform that is long overdue. At present, Japan's position is anomalous. After the United States, Japan is the largest contributor to the United Nations, and to its peacekeeping budget. Yet it does not allow itself to send combat units for any of the Security Council's peacekeeping operations. Until it can back up the Security Council with men, and hence share the political risk, as well as just the cost, it cannot reasonably expect to take up the permanent seat there that it considers to be its right.

Japan's self-defence forces—themselves the product of an earlier reinterpretation of Article 9, which on the face of it pledges that Japan will never maintain armed forces—are by far the best-equipped in Asia, and its defence spending is comparable to that of China, despite the fact that it has only a tenth the number of men in uniform that its much larger neighbour does. Yet those forces at present contribute nothing to Asian security, but for guaranteeing Japan's own defence. In the event of an American conflict—perhaps with China, over, say, the rights of passage through the South China Sea or the Taiwan Strait, matters of great strategic importance to Japan—Japan would have to let its planes and ships stand idly by.

Any attempt by Japan to change Article 9 would be viewed with concern by its neighbours, and draw particularly loud protests from China. Japan's history—which the Japanese have failed to come to terms with as admirably as the Germans have with theirs—means that any such effort has to be handled with tact and humility, and in parallel with renewed efforts to convince its neighbours of its penitence. Japan could, to take one example, get on with compensating the tens of thousands of Korean "comfort women"—that is, sex slaves—whom it exploited during the war.

Stay away from that shrine

So it is unfortunate to see Mr Koizumi, just as he is trying to take a proper step towards what might be called nice nationalism, at the same time taking another towards its nasty counterpart, by pledging to visit its most notorious symbol.

There is nothing innocuous about a trip to the Yasukuni shrine, in central Tokyo. It is true that it is a place where, quite reasonably, Japanese pay homage not just to the dead of the Pacific war, but also to the *kami*—the divine spirits—of all the 2,466,000 men and women who have lost their lives for Japan since the shrine was founded in 1869. But it also undeniable that the shrine represents a potent symbol

for nationalism. The shrine's own literature makes no mention of any war guilt: it declares that "to maintain the independence and peace of the nation and for the prosperity of all of Asia, Japan was forced into conflict." Among the *kami* commemorated there are General Hideki Tojo and the six other executed Class A war criminals, as well as all those who "were cruelly and unjustly tried by a sham-like tribunal of the Allied forces".

To understand how the Chinese and the Koreans might feel about a prime-ministerial visit, imagine a German chancellor attending a church commemorating Hitler, Göring, Himmler, Jodl and the rest. It is for this reason that only one post-war prime minister, Yasuhiro Nakasone in 1985, has officially visited Yasukuni, though Ryutaro Hashimoto also visited in 1996, supposedly in a private capacity.

There are better ways to commemorate the dead. The leader of Japan's socialist party, Takako Doi, annually visits a far less controversial site, the nearby park containing a tomb for an unknown soldier. Mr Koizumi would be better advised to do likewise.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Macedonia

Last piece in the Balkan tragedy

May 17th 2001
From The Economist print edition

Better news, but still lots to worry about

Get article background

EPA

VIEWED from afar, the eastward expansion of the European Union—and hence of the stability, wealth and democracy that the EU is supposed to safeguard—may look like a long, intricate story, with many detours and sub-plots, that is nonetheless predestined to have a happy outcome. Our survey in this issue suggests that view may be too complacent. But even in corners of Europe that now look wild and anarchic—such as Kosovo and the adjacent bits of Macedonia and Serbia—people talk as though the Union's civilising influence was bound, sooner or later, to embrace the entire continent. Confidence in this outcome has been stronger than ever since the removal last year of the one European leader who openly preferred the despots of Baghdad and Beijing to the bureaucrats of Brussels—Slobodan Milosevic.

In fact, darker possibilities also exist: the lawlessness and smuggling that now prevail in much of the south Balkan war zone may spread, and infect the EU, rather than contract. That danger may have been reduced by two happy developments in recent days. One was the formation, with EU mediation, of a broad coalition government, grouping the main Slav and Albanian parties, in fissiparous Macedonia; the other was the news that elections will be held in Kosovo later this year. But, however welcome, neither will instantly change the fact that war is sputtering away a few miles from the main north-south road linking Greece, via Serbia, with its EU partners. The violence in a strip of southern Serbia, next to Kosovo, was escalating this week, as Yugoslav forces moved in.

In theory, both the new Macedonian coalition and the Kosovo ballot should increase the chances that the region's fast-growing ethnic-Albanian community will pursue its aspirations peacefully. The new government in Skopje, which represents more than 90% of Macedonia's electorate, should have leeway to make deep changes in the political, economic and educational system, so as to boost the confidence of the ethnic Albanians and drain support from extremists; and the hope of an election in Kosovo should strengthen the hand of moderates there. But the dangers are evident to anyone who travels a few miles out of Skopje, to an area controlled by well-armed, cocksure, ethnic-Albanian fighters, contemptuous of all politicians and enjoying some popular support. It will take more than clever coalition-building to make them go home.

Few people who know Macedonia see any hope of peace unless certain Albanian aspirations are met: a bigger stake in the formal economy, more access to education at all levels in the Albanian language and more power for municipalities. But the country's Slavs feel unhappy too. They have seen their living standards slump, and their security threatened, as a result of the fighting in their neighbourhood. The fact that for arcane historical reasons none of their neighbours—Serbs, Bulgarians or Greeks—fully accept the existence of a separate Slav-Macedonian ethnicity has made the Slavs of Skopje protective of the "national home" their constitution proclaims.

In fact, there is no prospect of peace in Macedonia if its internal arrangements are viewed as a straight contest in which one side's gain is the other's loss. There is an urgent need to boost the prosperity of all its communities through economic reform, swift and clearly honest privatisation, and encouragement for new businesses—in part to help the Albanians, who enjoy great success as traders, to enter the Slav-dominated manufacturing sector. The EU should play its part with well-balanced economic aid, to speed reforms, cushion any shocks and provide better education for everyone.

The unravelling agreement

Macedonia has held together so far because its elites, Slav and Albanian, have divided up the spoils from cronyism, corruption and state control of the economy. But the deal is coming apart. Under the old order, big state enterprises were controlled by the Slavs, while many Albanians had to make their living abroad or in small businesses, legal and illegal. Now that the economy is being liberalised, unhappiness over Slavic “privilege” is growing. And the Albanians want political power commensurate with their numbers—they claim to be a third of the population—and their entrepreneurial success.

Making sure that change in Macedonia happens peacefully is already the biggest single preoccupation of the EU’s foreign-policy chiefs, Chris Patten and Javier Solana, and that is probably the right use of their time. Behind their breezy rhetoric, they know that nothing guarantees a happy ending in the Balkans, or even in Europe as a whole. You have been warned.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Conflicts of interest

Going for gold

May 17th 2001
From The Economist print edition

Scientists should disclose their financial interests, and let the world decide what to think about them

"SCIENTISTS at the McDonald's Centre for Obesity Research suggest that eating a hamburger a day actually reduces cholesterol levels." Well, we made that up. However, this kind of company-backed research is becoming more common, and is undermining the fragile trust in science held by a public that has been fed a few too many whoppers.

There is good reason for concern. Encouraging private money for science not only gives the boffins more resources; it also creates a useful incentive for them to press on in their quest for truth in ways that will yield measurable benefits to humanity. Unfortunately, money can also create an enticement to stretch the truth somewhat. Several studies have shown that researchers with a financial interest in the outcome of their work tend to publish conclusions that are, oddly enough, positively aligned with their affiliations. That may not surprise cynics—or indeed economists. But it would be a sad thing for science if its sponsors were able to dictate the outcome of research.

The editor of the *British Medical Journal* recently protested strongly against the donation of money by a tobacco firm to a British university (see article). Yet last year, he defended the right of the journal to publish research sponsored by tobacco money. This creates a puzzle. If tobacco-sponsored research is acceptable, as long as it passes the bar of peer review, surely the sponsorship of research centres by tobacco companies should be acceptable, too?

Some publications, such as the American Thoracic Society's journal and the *British Journal of Cancer*, refuse outright to publish tobacco-sponsored research. This is a consistent position, but a dangerous one. Scientific journals are not meant to serve as arbiters of the morality of particular industries. They are meant to publish good research. But as companies increasingly pay researchers' grants and expenses, how can journals sift out the unbiased from the biased?

The answer is, they cannot. All they can do is to report whatever conflicts a scientist discloses, and take his word that the list is complete. This is not as naive as it sounds. Science has always relied on trust. When researchers submit a paper to a journal, they must vouch that they performed the research they say they did, that they followed experimental protocols correctly, and that they did not tamper with the data or the analysis. It ought not to strain the limits of credibility to ask them to own up to their sources of income too. Science has always had to cope with conflicts of interest. The most awkward one a researcher can face is his own interest in the correctness of his hypotheses.

Donald Kennedy, the editor of *Science*, points out that scientists often come to believe so strongly in the validity of their theories that they cease to examine them objectively. But this loss of objectivity is overcome by the efforts of other researchers, who are properly sceptical in their outlook. Eventually, faulty ideas are discarded and sound ones prevail.

Achieving truthful science depends not on the eradication of bias but on its gradual correction. Printing disclosures of interests, publishing only research that passes rigorous peer review, and then letting the readers decide for themselves whether the research is worthy should be enough. The vigilance of rival scientists, which is up to catching even the tiniest flaws in experimental design, will surely detect any omissions of interest that occur.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

West Africa

The war that spread

May 17th 2001
From The Economist print edition

The UN is abreast of West Africa's complex war, but it does not have the resources to help end it

Get article background

FOR once the United Nations has got there before the television cameras. An investigating team, sent by Kofi Annan, the UN's secretary-general, presented its report to the Security Council on Monday. It found a large chunk of West Africa at war with itself and starkly warned of the "rapid spread of insecurity and instability, unless urgent steps are taken to address the causes of conflict and turmoil." The steps it recommends—everything from more debt relief to freeing child soldiers—are mostly unrealistic, but at least the UN has sounded the alarm. On the critical list are Sierra Leone, Liberia and Guinea, but they could be joined by Nigeria, Côte d'Ivoire, Mali, Guinea-Bissau and the Casamance region of Senegal.

Liberia has yet to recover from an eight-year civil war that supposedly ended in 1997. Sierra Leone has been engulfed in civil war for ten years. Now these wars have merged, to become a single regional war. Put simply, Liberia supports rebels in the other two and Guinea supports rebels in Liberia. But the causes are also internal. Poverty and fighting have produced thousands of ill-educated, frustrated young people who are easily recruited into a life of murder, rape and looting.

Most of the 15m people in the three countries are impoverished by war and its attendant hunger and disease. Nearly half a million refugees from Sierra Leone and Liberia are trapped in Guinea, preyed on by rebels from all three countries and the Guinean army. The UN says their plight will worsen.

The UN is hampered because, apart from Britain, no permanent member of the Security Council wants to get involved. France, the former colonial power in Guinea, disagrees with British policy; America is standing back. A concerted effort is needed, first, to stiffen the UN force, second, to help the victims, and, third, to resume the search for a political solution.

Peacekeeping in the region has already been discredited. This time last year hundreds of poorly-led, ill-trained UN peacekeepers in Sierra Leone were taken hostage by rebels in defiance of the peace treaty signed the year before. Britain sent troops to secure the capital and has kept on some 600 soldiers to train a new army. But it refuses to get further involved and, despite giving the UN force financial and logistical support, it will not put its troops under UN command. The UN mandate, drawn up to monitor the peace agreement, has not been strengthened for fear that countries with troops already there might pull them out. Yet, even with its existing mandate, the force could move more aggressively into rebel areas. In particular, the Security Council should authorise and pay for a force to protect the refugees in Guinea.

At present the task of making peace is being left to the regional organisation, the Economic Community of West African States, ECOWAS. Its record is mixed. Its members, each with its own national interest in the region, do not speak with one voice. Plainly, the job of brokering peace should be undertaken by the Security Council with the involvement of ECOWAS, not the other way round.

This is a good time for talking—even if it means talking to murderers and crooks. In Sierra Leone the Revolutionary United Front (RUF) rebels know they cannot take the capital. They still occupy about half the country including lucrative diamond fields, but they have committed fewer atrocities of late, have apparently agreed to disarm, and last week released 88 child soldiers from their ranks and promised to set free more. Parts of the RUF seem willing to take part in an election scheduled for later this year (see article). Much depends on President Charles Taylor of Liberia, who has hitherto behaved more like a warlord than an elected leader. With luck, however, the sanctions just imposed by the UN may weaken

his guns-for-diamonds trade with the RUF.

Time to get serious

But little will be achieved by talking if the glint of steel is not flashing in the background. The UN force needs more troops from more countries if it is to be effective. Rich countries unwilling to contribute can, and should, train and equip peacekeepers from other countries. The stronger the force, the less likely it is to suffer casualties—and the more likely that the talkers will believe outsiders genuinely want this war to end.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Letters

May 17th 2001
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Prosecuting the war

SIR – Lexington is wrong (May 5th). It is not so difficult to distinguish between "war crime and tragic mistake". However, the focus must be shifted from the soldiers sent to do the killing to the national leaders who establish the strategies and even the tactics that determine how a war is fought. In Vietnam these strategies (free-fire zones, strategic enclaves, search and destroy, body count, etc) set up our young men, including Bob Kerrey and his SEAL team, to commit atrocities.

National leaders who approve and set in motion the strategies must be held accountable before an international tribunal for the atrocities committed at their behest or, as Lexington fears, war will probably become sanitised and we will grow too fond of it.

Charles Bickel
Poulsbo, Washington

SIR – In Mr Kerrey's case you say that it is "hard" to draw a bright line between crimes and the ordinary terribleness of war. This is true only because Mr Kerrey is an American. Were he a 25-year-old German soldier during the second world war who had killed 20 unarmed Jewish civilians, most them women and children, few, including you, would have difficulty drawing that bright line and knowing on which side Mr Kerrey's conduct fell.

Michael Ratner
New York

Sudan's oil

SIR – Your article on Sudan ("War, famine and oil in Sudan", April 14th) draws needed attention to the plight of those forced to flee the fighting that has plagued the country for nearly 50 years. Unfortunately, you are wrong about the location of both the fighting and the oilfields, creating the impression that people are being forced to leave areas where we produce oil. In fact, since we invested in Sudan in 1999, there have been large population increases in our concession area as a result of economic development, community improvements and protection from warring factions.

Your map shows Sudan's "main oilfields" extending far south of Bentiu, the capital of Unity state. Bentiu's true location is outside the extreme southern border of Sudan's main oilfields—the concession operated by the Greater Nile Petroleum Operating Company in which we own a 25% interest. You create the false impression that fighting and displacement of civilians is taking place in our areas of operation. It is because there is no fighting in these areas that we have been able to build roads, provide electricity and new water supplies, and build a hospital and clinics that give free medical care to hundreds of people each day.

Jim Buckee
President, Talisman Energy
Calgary

America's cup run

SIR – You are wrong that America's men have never made it past the first round of a soccer world cup ("A league of their own", April 21st). Our men reached round two in the 1994 competition, staged in the

United States, where we lost 1-0 to the eventual champions, Brazil.

Chris Chappell
Washington, DC

Trusting Europe

SIR – Your efforts to contribute to the "great debate" on the future of Europe would benefit from further analysis and a glance at the empirical evidence ("Schröder's Europe", May 5th). Your claim that the Council of Ministers "has more legitimacy" than the European Parliament or the European Commission does not hold water. When the council decides by a majority—as is increasingly the case—the outcome is beyond the control of individual governments and depends on the distribution of preferences among other ministers or prime ministers. Intuition suggests that citizens of a country are likely to trust their MP more than their MEP and their prime minister more than the president of the commission, but it is by no means obvious that they would trust ministers and MPs of other countries more than commissioners and MEPs.

Commissioners are there to pursue the interests of all European citizens while national ministers are elected to pursue the interests of their fellow citizens regardless of whether these may conflict with collective European ones. Claiming that the council has more democratic legitimacy than either the parliament or an elected commission is nonsense. Data on public trust toward the EU's institutions consistently shows that the Council of Ministers is less trusted than the European Parliament and the European Commission.

Paolo Dardanelli
Royal Holloway, University of London
Egham, Surrey

Shell in Nigeria

SIR – Your article on Nigeria and Shell could give the impression that we are trying to keep secret the results of a recent independent survey that Shell Nigeria commissioned on its community-development projects in the Niger Delta ("Helping, but not developing", May 12th). In fact, the results are highlighted on article 26 of Shell Nigeria's latest "People and the Environment" annual report.

The projects were reviewed by Unicef, the World Bank and Pro Natura among others and 64% of them were judged fully or partially successful. Naturally, we want to do better. The Niger Delta is widely acknowledged as one of the most difficult regions in which to do such work. Shell Nigeria would like to benchmark its results against those of other companies and agencies working there. Sadly, it is unable to do so. As far as I am aware, no one else submits their projects to similar independent scrutiny—still less publishes the results.

Emeka Achebe
Senior corporate adviser, Shell International
London

The war against drugs

SIR – Comparing John Walters, America's new drug "tsar", to a general of the first world war raises several points ("Experiment with drugs, Mr Bush", May 5th). The German general staff, by 1918, had developed new tactics and command structures that proved effective in conditions of modern industrial war, leading to victory in the east and brilliant, if temporary, successes in the west. Yet Germany, though innovative, lost the war. The allies failed to develop any substantive new operational or tactical methods, preferring to rely on slow advances in weaponry and overall economic superiority. In the end they won. As with the battle against drugs, the human, economic and political consequences were devastating.

Barry Regan
Chicago

Classical education

SIR – You call graduates of Wellesley College "alumni" ("The old-girl network", April 28th). I recall that

alumnus can have both masculine and feminine endings, and that graduates of women's colleges are called alumnae. If I am wrong, you can push me in Lake Waban.

Michael Cabaretta
San Francisco

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SPECIAL

A renaissance that may not come

May 17th 2001 | THREE MILE ISLAND
From The Economist print edition

This week, the Bush administration unveiled an energy policy that strongly supports nuclear power. This may revive a flagging industry, but the doubts remain as strong as ever

Get article background

THE gently rolling farmlands of central Pennsylvania do not prepare the casual visitor for what lies outside Middletown. Farmers tend cows and corn, diners serve simple food, and the occasional Amish buggy saunters by. But suddenly, there on the horizon, loom the cooling towers of the nuclear plant at Three Mile Island.

The words still send a shiver down the spine. It was here, early in the morning of March 28th 1979, that a reactor started to overheat. A combination of mechanical failure and human error sent the temperature in the reactor core soaring, threatening a blast that would have released huge quantities of lethal radiation. With the lives of perhaps half a million people at stake, politicians and scientists argued over what to do. In the end, disaster was averted; but the world did not forget.

For a while, it seemed that the accident at Three Mile Island (TMI) had killed off nuclear power. No new plants have been built in the United States since then. In Europe, too, people began to have second thoughts. TMI led directly to a referendum in Sweden in 1980 that demanded an end to nuclear power.

In 1986, an even worse accident, at Chernobyl in the Soviet Union, seemed to put the nail in the coffin of nuclear power in Europe. A number of countries, following Sweden's lead, campaigned for a ban. In Germany, the greens succeeded: the government has just agreed to end reprocessing of nuclear fuel by mid-2005. Moreover, Germany and Belgium have decided to ban new nuclear plants, although existing ones may serve out their useful lives. Even pro-nuclear France seemed to lose its enthusiasm for new plants.

For a while, Asia remained a bright spot for the nuclear industry. But the Asian financial crisis of 1998 cooled that enthusiasm. In recent months the new government in Taiwan, once a big fan of nuclear power, has tried to reverse course. In Japan, an accident soured public opinion: shoddy management practices at an experimental fuel-reprocessing plant in Tokaimura led in September 1999 to the deaths of two workers after they were exposed to radiation over 10,000 times the level considered safe. The Japanese government quietly scaled back its plans for 20 new plants.

The industry also hurt itself. In 1999, it emerged that British Nuclear Fuels (BNFL) had falsified records relating to shipments of nuclear fuel to Japan, sparking outrage in both countries. The firm had also understated the cost of nuclear clean-ups in Britain by some $13 billion. Clumsiness with deadly stuff, and now mendacity; in one way or another, nuclear power seemed to spell nothing but trouble.

Votes of confidence

Yet some did not lose faith, and are even looking at nuclear power in a new way. South Africa's Eskom is working with BNFL and Exelon, America's biggest nuclear-energy firm, to build a reactor using new "pebble-bed" technology. In Finland, a power company is now requesting permission to build a *euro*2.5 billion ($2.2 billion) nuclear plant.

Robin Jeffrey, the new chairman-designate of British Energy, Britain's largest nuclear operator, also sees a bright future for his industry. "The mood is buoyant," he says. "Utilities with a nuclear portfolio are seen to be attractive places to put your money." In fact, he has just completed a deal to take over the operation and maintenance of several reactors in Canada. Through AmerGen, a joint venture with Exelon, British Energy already manages a number of plants in the United States.

This week has produced the biggest boost of all for nuclear power: a strong endorsement from the Bush administration. On May 17th, a cabinet-level task-force unveiled a new energy policy that firmly supports the nuclear option. Vice-President Dick Cheney, the head of the task-force, argues forcefully not only for giving existing nuclear plants a new lease of life, but also for building more: "We'd like to see an increase in the percentage of our electricity generated from nuclear power."

To understand why fans of nuclear power have become so optimistic, look back to Three Mile Island itself—now managed, as it happens, by AmerGen. The accident destroyed one of the plant's two reactors, but the surviving reactor has been back in service for some years now. In that time, TMI has become one of the most efficiently run and safest nuclear plants in America, as well as one of the most profitable. Corbin McNeill, Exelon's boss, is certain that financial success and operational safety are closely linked. TMI, he thinks, is a shining symbol of the future for nuclear power.

What explains this burst of enthusiasm? The short answer is the arrival, at long last, of market forces in the electricity business. After decades of being run as monopolies, either by the state or the private sector, the electricity industry is being deregulated the world over. As a result of this, and of the current high price of fossil fuels, existing nuclear plants look attractive, and are beginning to be run as proper businesses by serious managers.

The charm of consolidation

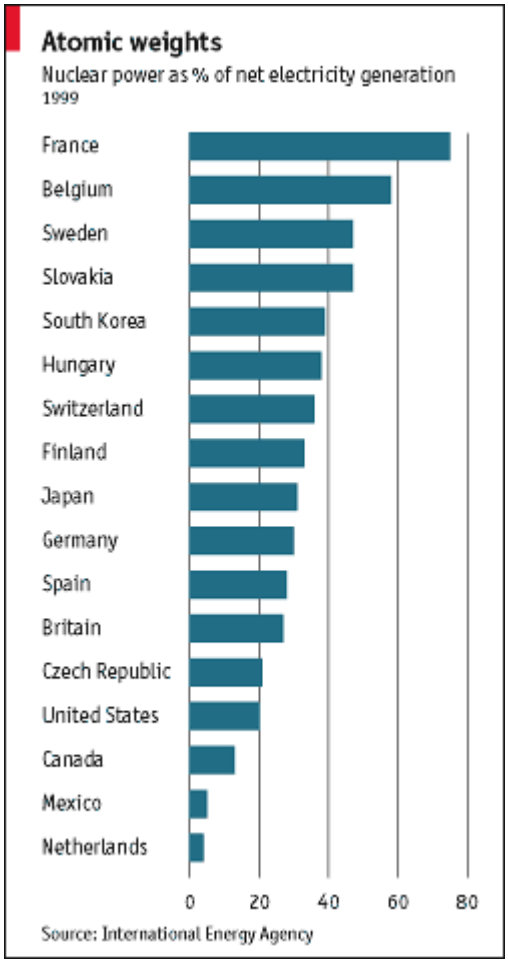
This is best seen in America, which deregulated its wholesale markets for power in 1996. The result of deregulation was a painful squeeze on America's dozens of nuclear plants, many of which were run as one-off investments by local utilities. That is rapidly changing, however, thanks to the flurry of deals that have led to mega-mergers (like the one that created Exelon), joint ventures (like AmerGen), and other sorts of management coalitions. Nearly 30 gigawatts, about a quarter of the country's nuclear capacity, has already been affected by this consolidation. In the near future, today's 50 nuclear utilities will probably be reduced to a dozen.

The advantages of such consolidation are many. Plant managers can benefit from economies of scale and can apply best practices more widely. As a result, plants are running at higher capacity-utilisation rates and making better use of their fuel. Plant operators have also tried to expand capacity by upgrading their steam generators and turbines. Last winter, America's nuclear plants cranked out power at an operating cost of just 1.8 cents per kilowatt (kW)-hour; coal plants produced it for 2.1 cents per kW-hour, while those using natural gas (the price of which soared last winter) did no better than 3.5 cents.

Such improvements, argue nuclear fans, make a clear case for extending the licences of existing nuclear-power plants beyond their original limit of 40 years or so. In America, for example, a number of these permits will start expiring in 2006, and nearly all will have gone by 2030. The story is similar in Europe and elsewhere.

The fans are surely correct. Plants have been able to achieve such low operating costs because they are better managed and more efficient, and that, in turn, is linked to improved operational safety. When plants are safe, people do not mind living near them. Two plants have already received approvals from America's Nuclear Regulatory Commission (NRC) for another 20 years of

operation. More will follow.



Cheaper tomorrow...

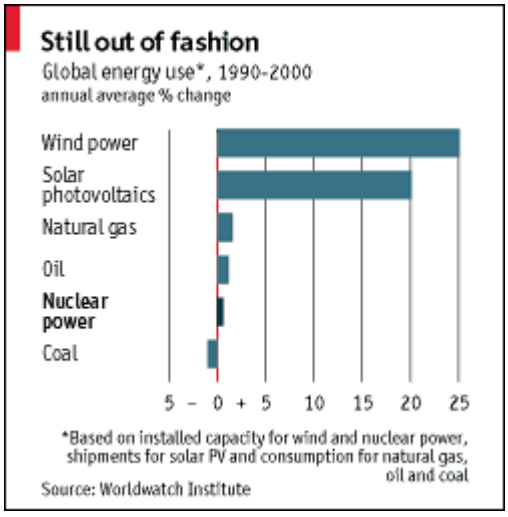
Tomorrow, the advocates say, nuclear power will be even cheaper. They point to promising new designs (such as pebble-bed technology) and argue that power plants are on the way that are safer and more cost-effective than today's. The industry is also mature now, they say; both companies and regulators know how to avoid the costly bureaucratic quagmire that followed the TMI accident. In future, new plants will be "cheaper than coal".

Maybe; maybe not. The new designs for nuclear plants are undoubtedly improvements. Technical experts agree that they are probably inherently safer, as they use "passive" safety features that make a TMI-style meltdown virtually impossible. The NRC has already given its blessing to three advanced designs. However, critics argue that some new designs "put all the safety eggs in the prevention basket", while short-changing systems that might limit an accident if one occurred.

Even if they do prove safer, the new designs may not necessarily be cheaper. By the reckoning of the International Energy Agency (IEA), which has just produced a new analysis of the economics of nuclear power*, the capital cost for today's nuclear designs runs at about $2,000 per kW, against about $1,200 per kW for coal and just $500 per kW for a combined-cycle gas plant. History also suggests that not everything goes as planned when turning clever paper designs into real-life nuclear plants. What is more, the debts of any new plants, unlike the debts of existing plants, will not be written off. In fact, the true cost of power from today's plants is at least double the apparent figure, argues Florentin Krause, an American economist, once debt write-offs, government subsidies and externalities are accounted for. More on that later.

Capital cost clearly remains a big hurdle for nuclear power. When considering the full life-cycle costs of a new project in today's money, some 60-75% of a nuclear plant's costs may be front-loaded; for a gas plant, about a quarter may be. That is before considering interest accrued during construction, which, over the many years it takes to build nuclear plants, can make or break a project. All these dismal sums explain why nuclear projects are exceptionally sensitive to the cost of capital.

...and cheap forever?



Never mind that, the nuclear industry argues; tomorrow's plants will prove cheaper to operate in several ways. For a start, some say, plants will be bigger, to take advantage of economies of scale. Second, there will be a whole series of plants, rather than the uneconomic one-off structures of the past, and these (in imitation of France's *dirigiste* approach) will be standardised replicas of new designs, rather than endless permutations.

Each of these bright ideas has problems. Building bigger plants introduces more complexity, which, experts say, means greater uncertainty and cost. The idea of building many plants is thwarted by the fact that the electricity market in the developed world is not growing fast enough to need them. In fact, the trend since the mid-1970s has been towards smaller plants. It is micropower, not megapower, that the market favours, thanks to the far smaller financial risk involved.

It is true that regulators are becoming lighter-handed. They no longer drag out the completion of plants for ten or 15 years. Even so, careful analysis of the delays after the TMI accident shows that technical hitches were largely to blame, rather than red tape. Many new plants happened to come on line at around that time, and a number had generic technical faults. Even the French programme, touted as a model, suffered from such problems as late as the 1990s: its latest N4 design developed cracks in its heat-removal systems.

A dubious special case

The industry's advocates point to other benefits: security of supply, environmental benefits, and so on. In some countries and in some circumstances, such arguments might have merit. But, taken together, do they make nuclear energy a special case that justifies subsidies or other forms of government intervention?

The energy-security arguments vary, but mostly involve reduced reliance on fossil fuels, less vulnerability to an OPEC embargo, or a smaller bill for imported fuel. Whatever the political soundness of such arguments, an analysis done in 1998 by several agencies affiliated with the OECD is quite clear about the relative costs and benefits: "For many countries, the additional energy security obtained from investing in non-fossil-fuelled generation options is likely to be worth less than the cost of obtaining that security."

On environmental grounds, too, nuclear power does not emerge a clear winner. It is true that nuclear energy does not produce carbon dioxide, the chief culprit behind man-made global warming. That, say fans like Mr Cheney, means that the world "ought to" build more such plants. But handing out public money to the nuclear-power industry (through production or investment tax credits, for example) is an inefficient way for governments to discourage global warming.

The better way would be through some sort of carbon tax, which would penalise fossil fuels but not any fuel free of carbon emissions, whether nuclear power or renewables. The IEA's boffins have analysed how much of a boost nuclear power could get from a carbon tax, and the answer is quite a lot—possibly enough to compete with coal. Assume that the carbon tax falls between $25 and $85 per tonne of carbon, the level many experts think may be needed if industrialised countries are serious about the emissions targets agreed on in 1997 at Kyoto (some would set it higher still). The IEA thinks that the highest of those taxes would boost the competitiveness of nuclear electricity against coal by two cents per kW-hour, and against natural gas by one cent. At the low end, nuclear gains an advantage of half a cent and a quarter-cent respectively.

But nuclear energy, even if boosted by a carbon tax, also carries grave environmental liabilities. Radiation is a threat to human health at every stage of the process, from uranium mining to plant operation (even in those new ultra-safe plants) to waste disposal. And waste disposal, despite decades of research and politicking, remains a farce. No country has yet built a "permanent" waste-disposal site. The United States hopes to have one finished at Yucca Mountain, in the Nevada desert, in a decade's time; the European countries are a decade behind that. Even if these geological storage sites are completed, they are not the final answer. Nuclear waste may remain deadly for 100,000 years. To bury it in a big hole in the ground, and pray that some future generation may discover how to make it safe, is

simply passing the buck.

Lastly, when costing nuclear power, it is essential to remember the scope, scale and subtlety of the subsidies it has received. The IEA analysis of nuclear economics shows that various OECD governments subsidise the industry's fuel-supply services, waste disposal, fuel reprocessing and R&D. They also limit the liability of plants in case of accident, and help them clean up afterwards. Antony Froggatt, an industry expert who has advised Greenpeace, points to export loans and guarantees as another unfair boost.

How much does all this add up to? The IEA's otherwise comprehensive analysis falls strangely silent on this topic, doubtless for political reasons. Reliable, comprehensive and up-to-date global figures from neutral analysts are scarce. Estimates by nuclear opponents typically carry too many zeroes to fit on this page. They are about as rigorous and credible as those put forth by the industry, which usually maintains the outrageous fiction that it no longer receives any subsidies at all.

Coddled to the hilt

Liability insurance is a good example of this. The American industry's official position is that there is no subsidy involved in the Price-Anderson Act, by which Congress limits the civilian nuclear industry's liability for nuclear catastrophes to less than $10 billion (a small fraction of what a Chernobyl-scale disaster would cost in America). Since there is no subsidy involved, why not let the act lapse when it comes up for renewal next year? Mr Cheney's response is revealing: "It needs to be renewed...[if not], nobody's going to invest in nuclear-power plants."

One concrete figure gives an idea of how enormous the overall subsidy pie might be. According to official figures, OECD governments poured $159 billion in today's money into nuclear research between 1974 and 1998. Some of that breathtaking sum is a sunk cost from the early days of the industry, but not all: governments still shell out about half their energy R&D budgets on this mature industry. Even so, says the industry, those have been tapering off over time. But so will all the other subsidies, as the liberalisation of markets advances. The pillar on which the strength of the nuclear industry has rested is crumbling away.

In the end, nuclear energy's future may be skewered by the same sword that is making it fashionable today: the deregulation of electricity markets. This liberalising movement has put a shine on old nuclear plants that are already paid for. TMI, for example, was bought for a pittance and so cranks out power for virtually nothing.

Yet liberalisation is also exposing the true economics of new plants, and is aiming a fierce spotlight at the hefty subsidies that nuclear power has long enjoyed. As these fade, the industry will once again be brought down to earth.

---

* "Nuclear Power in the OECD". International Energy Agency, 2001.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

George Bush's record

The Texan parable

May 17th 2001 | AUSTIN
From The Economist print edition

George Bush's legacy is already being picked apart—but it's in Texas, not Washington, that the unravelling is being attempted

EPA

"I SAT in [Governor George Bush's] office and I said, 'You're going off to Washington and getting elected and you're leaving me with all this mess.' " Paul Sadler, a Democrat in Texas's House of Representatives, is talking about a particular issue, "social promotion", the practice of automatically graduating pupils at the end of each school year, even if they have not achieved the required academic standard. But he could be speaking of much of Mr Bush's record in his home state.

The Texas legislature meets only every two years, and this is the first time lawmakers have had a chance to consider Mr Bush's legacy. With the 2001 session about to end on May 28th, they seem to be unravelling it with a vengeance. Consider:

• On May 11th, Rick Perry, the new governor, signed into law the "James Byrd Hate Crimes Act", named after a black man chained to a truck and dragged to his death. The law specifies harsh punishments for crimes committed against particular groups of people. Mr Bush opposed it as governor and on the campaign trail.

• The state's House of Representatives has passed a bill that would set a two-year moratorium on new charter schools (privately managed public schools, a Bush favourite), and voted to postpone by a year Mr Bush's planned abolition of social promotion.

• The legislature is working on several bills to moderate death-penalty laws. One would provide better legal defence for indigents (a bill Mr Bush had earlier vetoed). Another would extend the use of life imprisonment. A third would stop the execution of mentally retarded murderers.

• Both houses have voted to streamline Medicaid, helping poor children to get it (another proposal Mr Bush had opposed).

• The House has voted against the state's practice of allowing 700 ageing factories to volunteer to cut their pollution (only one has done so, surprise, surprise).

• A proposal has appeared to repeal a property-tax cut that Mr Bush pushed through in 1997. This is going nowhere, but the fact that it was even considered is a gauge of the broader implications of the Texas debate.

For Democrats, there is an obvious lesson to be drawn from all this. If Mr Bush's agenda of tax cuts, education reform and business-friendly deregulation has proved too much even in a conservative bastion such as Texas, surely his attempt to reproduce those policies on a national scale is doomed? In fact, Mr Bush's Texan legacy is more complicated. In terms of specific policy issues, the current rebellion says very little about his national agenda. But, in terms of fiscal shortsightedness, the message is much more worrying.

At most, the attempt to roll back the Bush legacy is a limited one. As Mr Perry points out, a lot of the bills will not become law. Both the attempt to keep social promotion for an extra year, and the moratorium on charter schools, are being held up in the Senate by one of Mr Bush's fervent supporters, who has the power to kill them. Many of the criminal-justice provisions will get through, but probably not the environmental toughening.

Moreover, even if the education bills were to become law, it is an open question whether they should be considered ideological reversals. The reason for keeping social promotion for an extra year is not really to do with the underlying debate about whether abolition would penalise poor pupils. The school year when social promotion is due to end, 2002-03, is also the year when new school tests (tied to a new curriculum) will be introduced. Supporters of a moratorium worry that teething problems with the tests may undermine support for another Bush hobby-horse, accountability.

Something similar is afoot with charter schools. The original bill was pushed through in a fit of enthusiasm, with very little supervision of the people setting them up (for which Mr Bush must share the blame). Although a few charter schools have been educationally outstanding, far more have been egregious organisational failures. Schools have closed in the middle of term for lack of cash. Examples of embezzlement and incompetent financial control abound. The Texas Education Agency says that almost a quarter of the 100-odd charter schools it has studied were inadequate.

In a sense, this example, and that of the death penalty, suggest, in Mr Sadler's words, that "it's not about dismantling the Bush legacy. It's just part of the natural progression of government." Texas was at the forefront of some of the experiments in local government in the 1990s, and it is unsurprising that it is in Texas that problems have cropped up early. As Bruce Buchanan, a professor at the University of Texas at Austin, points out, the state is changing fast. The huge influx of Latinos, largely from Mexico, as well as the growing number of technology firms, has made Texas more urban than it used to be, and less unique in terms of its political culture.

Normally, such gradual changes would make policy reversals gradual as well. The swiftness largely reflects two other changes. The first was the national spotlight beamed on Texas by the presidential campaign. Al Gore spent around $300,000 advertising Texas's failures to the rest of America. This had its impact back home. "We thought of ourselves as a mega-state," says Mr Buchanan. "But Texas was embarrassed to become the poster child of industrial pollution and a butt of criticism because of our system of criminal justice."

The other change was personal. The current legislative session is the first to take place since the departure of Mr Bush and the death of Bob Bullock, his Democratic lieutenant-governor. Mr Bullock was legendary for his strong-arm politics. Mr Bush had a public-approval rating in his latter years as governor of more than 80%. When the two men co-operated (and they co-operated a lot), they could exert a far greater hold over the political process than the indistinct and hapless Mr Perry.

To the extent that the legislature is delivering a rebuff to Mr Bush, it is reverting to a norm, having been absurdly generous in the 1999 session. As Scott Hochberg, a Democrat in the House, puts it, "Two years ago, when we sneezed, the question was did it help or hurt Bush. Now that pressure's off." The 1999 session saw the passage of a tax cut and several new spending programmes (such as a pay rise for teachers) in an atmosphere in which lawmakers were doing their very best to help Mr Bush. Rosy fiscal forecasts, which everybody knew to be bogus, were also accepted with barely a murmur. (Washington politicians, of course, are behaving much more responsibly with Mr Bush's current tax cut.)

The Texas tax-cut massacre

It is at this point that the main charge against Mr Bush emerges. He failed to prepare Texas for the long-term task of reforming state finances, and thus left the main items of state spending—education, health and welfare—in a bind.

The most dramatic example is welfare. The largest single source of money for welfare payments is a block grant from the federal government. In the name of flexibility, Mr Bush used about a sixth of this grant as a windfall to pay for programmes only tangentially related to welfare, such as family planning and the protection of abused children. This also made it easier for Texas to afford the tax cut Mr Bush pushed through in 1997.

Now, after five years of decline, welfare rolls are starting to rise again. Patrick Bresette, of an Austin-based think-tank called the Centre for Public Policy Priorities (CPPP), says that the block grant is already failing to keep pace with the increase in welfare demands and will fall into deficit if the rolls rise further. The money cannot simply be reclaimed from child-care programmes, where the relevant agency now depends on that federal grant for a third of its budget. And the tax cut has eroded the surplus in the general account.

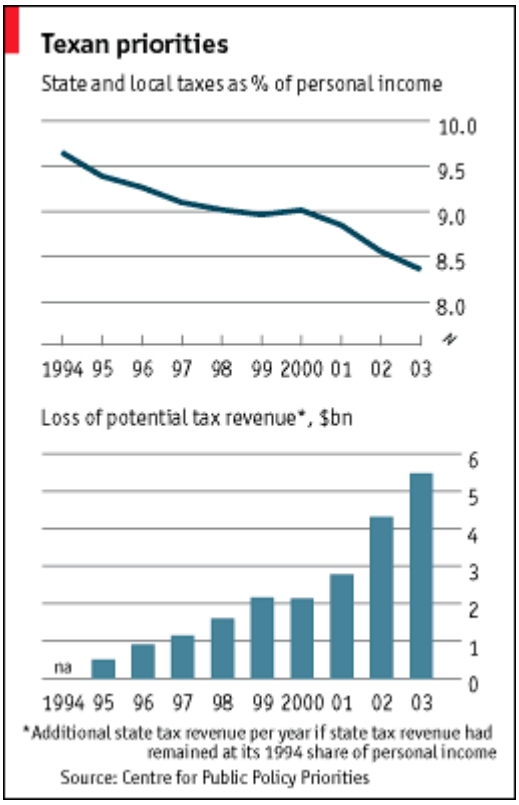
The problem stretches well beyond welfare. Demand for social services of all sorts is rising faster than revenues, partly because Texas has one of the highest proportions of school-age children in the United States.

Since the state must by law run a balanced budget, the contrast between lagging revenues and rising spending cannot show up as a deficit. Instead, it produces fiscal chicanery to balance the books. In its 1999-2001 budget, the state financed only 23 of the 24 months of Medicaid and other social services.

To keep programmes at current levels for the next two years, the CPPP reckons, would need $300m more than expected revenues (which themselves would be revised downwards if growth were flat). And that excludes several spending measures that are hard to put off. These include increasing Medicaid payments (most such services have not seen a rise for ten years and some doctors are refusing to offer them); the provision of health insurance for teachers (a few get it now through their school districts, but not all); and a pay rise for state employees. Texas is at or near the bottom of state and local government spending per head. There is a limit to how much more it can be squeezed.

The underlying problem is the lopsided structure of the tax system. Over half the state's revenues come from a sales tax on goods, which has not kept pace with Texas's shift to a service-based economy. The CPPP's budget expert, Dick Lavine, calculates that tax revenues as a share of personal income have declined from over 9.5% in 1994 to about 8.7% this year, and are still falling (see chart).

The school-finance system is particularly skewed. It depends on local property taxes. There is a cap on these taxes; 20% of school districts are at the limit, and most others are near it. But school enrolment is soaring. Mr Bush promised to increase the state's share of education spending to 60%; instead it has fallen to 44%.



Ammunition from Austin

It may seem unfair to blame Mr Bush for the mess. Underfunding and financial chicanery long pre-date his governorship. And, to his credit, he tried to solve the structural problem by proposing to shift some of the burden of revenue-raising from property taxes to business taxes. Alas, he failed to persuade his own party, which vetoed the plan in the state Senate.

The real accusation is that Mr Bush's later campaigns for tax cuts fed an illusion of fiscal prosperity that Texas is only starting to wake up to. In their next few sessions, the lawmakers will almost certainly have to cut tax exemptions, widen the tax base where they can, and even consider, horror of horrors, an income tax. And a tax rise in Texas really would hurt Mr Bush, as much in Washington as in Austin.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

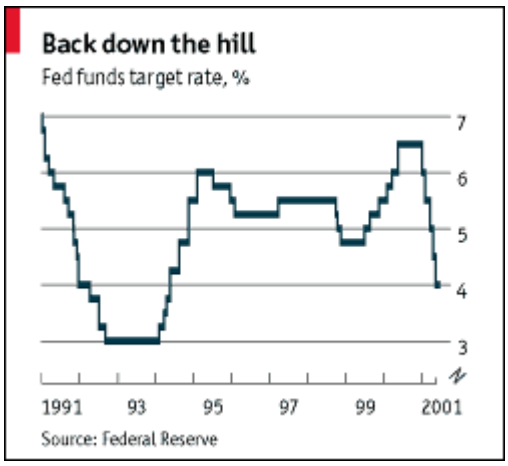
The economy

Another shot in the arm

May 17th 2001 | WASHINGTON, DC
From The Economist print edition

The Fed's latest rate cut may not stop a weak economy growing sicklier still

IT WAS no surprise, but striking nonetheless. On May 15th the Federal Reserve cut America's short-term interest rates by another half point, to 4%. In the five months since January the Fed has cut rates five times, a total of two-and-a-half percentage points, the most dramatic rate-cutting spree in years.



The Fed cited the continuing fall in capital spending as its prime concern. It also worried about the risks of slower growth abroad and the effect on consumption of earlier drops in share prices. Its statement contained the familiar phrase about the risks of "economic weakness in the foreseeable future" that suggests more cuts can be expected. Clearly, the central bank has no intention of slowing its concerted campaign to stop the economy sliding into recession. Will it work?

Wall Street appears to think so. This week the Dow Jones Industrial Average rose back above 11,000. The optimistic argument is that the American consumer, inspired by an aggressive Fed and by the imminent prospect of a tax rebate, will keep spending, while the current bout of retrenchment and cost-cutting that has dragged down American businesses runs its (beneficial) course.

At first sight, this view seems plausible. In stark contrast to the gloom surrounding businesses—industrial production fell a further 0.3% in April—recent evidence suggests that Americans are still keen to get rid of their money. Retail sales rose by a surprisingly strong 0.8% in April. Consumer confidence, as measured by the University of Michigan's index, rebounded in May. The construction industry remains strong.

Looking ahead, the optimists point to further interest-rate cuts (perhaps another half point during the next few months) and a tax rebate. Wall Street is keeping a close eye on the passage of President Bush's tax cut, particularly the $100 billion worth of immediate relief the package now includes. In principle, putting $100 billion (approximately 1% of GDP) in consumers' pockets quickly could have an even quicker impact on consumer spending than the Fed's interest-rate cuts.

So far, the Bush administration's determination to get tax cuts through quickly seems to be working. Congress passed a budget resolution—a non-binding overall plan of taxes and spending—which contained $1.35 trillion of tax cuts over 11 years including the $100 billion in immediate relief. On May 15th, the Senate's Finance Committee approved the tax-cut plan; the goal is to get final legislation to Mr Bush before the end of May.

Nonetheless, many old Washington hands doubt that such a big tax package can pass a narrowly divided Congress quickly. Nor is it certain just what the short-term relief will look like. Many politicians, especially in the House, remain opposed to rebates. Equally important, it is not clear how much of an effect a one-off rebate will have on consumption, or how quickly that effect will come through. Experience suggests that rebates are mostly saved rather than spent.

What's more, consumption may be in trouble long before the end of the year. On closer inspection, consumer spending is already less robust than it appears: April's rise in retail sales was offset by sharp downward revisions in February and March. Take all three months together and consumer spending is flat. Meanwhile, rapidly rising petrol and electricity prices are hardly boosting consumers' spirits.

Off the job

But the biggest potential cause for gloom is the labour market: a consumer's ability to spend depends overwhelmingly on his having a job. April's unemployment numbers were shockingly weak. The jobless rate rose to 4.5% in April as employment in private industry outside agriculture fell by 223,000. And full-time workers, rather than just temporary workers, are feeling the pain.

History suggests that this is just the beginning. Averaged over three months, America's unemployment rate has now risen 0.4 percentage points. According to economists at Goldman Sachs, any increase of more than a third of a percentage point on a three-month average has always signalled a recession.

Add these risks to consumption to the continuingly dismal news on capital spending, and it suggests that the economy may still be far from beginning a recovery. That, in turn, implies that interest-rate cuts are far from over. But, looking ahead, the Fed may find its room for manoeuvre limited by the spectre of inflation.

Despite the weak economy, many measures of inflation have been rising over the past months. And there have been signs that markets see more to come: the yield curve, which shows the difference between short- and long-term rates, has been steepening. These fears abated somewhat when data released on May 16th showed that consumer prices had risen by only 0.3% in April, and by only 0.2% once volatile food and energy costs are stripped out. That was less than forecasters had expected, and long bond yields fell substantially on the news.

The Fed is also unequivocal about the lack of inflationary pressure. In its first direct reference to inflation in months the central bank noted that "with pressures on labour and product markets easing, inflation is expected to remain contained." The central bank is leaving no doubts as to where its priorities now lie. The risk, however, is that later in the year it will face a more pointed dilemma.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Apology – American justice and the FBI

May 17th 2001
From The Economist print edition

In our last issue ("A covenant with death") we may have given the impression that the conduct of the Federal Bureau of Investigation in the prosecution of Timothy McVeigh had been exemplary; that the trial of the Oklahoma City bomber had followed the legal textbook to the letter ("none of the usual tales about drunk lawyers and uncalled witnesses"); and that, "barring a miracle", he would be executed on May 16th. However, the FBI having suddenly discovered 3,000-odd pages of evidence that Mr McVeigh's lawyers should have received before his trial, and his execution having thus been postponed to June 11th (at least), we now accept unreservedly that we should have always known the Bureau was bound to cock it up in the end.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Lexington

God and man in Washington

May 17th 2001
From The Economist print edition

George Bush is redefining the religious right

WE DON'T yet know whether George Bush will succeed in creating a more right-wing administration than Ronald Reagan's, although he is clearly trying his hardest. But he is certainly creating a more religious one. Mr Reagan, an easy-going divorcee, supported the church like a buttress, from the outside. Mr Bush, a born-again Methodist, is more a pillar in the nave.

The president claims that Jesus Christ is his favourite political philosopher. John Ashcroft, his attorney-general, has daily bible-study classes in his office. "Faith-based organisations" are Mr Bush's weapons in the war on poverty; conservative lawyers (usually faith-based ones) are his sergeants in the war against "politicised" courts. The president's recent list of nominees to the federal judiciary includes several heroes of the religious right, most notably Michael McConnell.

So is the religious right seizing the reins of government? There is no shortage of leftist groups that will tell you so, and in the direst possible terms. In fact, Mr Bush's religious politicking is both more subtle and more ambitious than his critics think.

Begin with the fact, little noticed by the left, that much of the old religious right is in a state of collapse. Jerry Falwell's Moral Majority, which helped Mr Reagan to win the 1980 election, is defunct. Membership of the Christian Coalition, which provided the foot-soldiers for the Gingrich revolution in 1994, is plummeting, its finances are chaotic, and its leader, Pat Robertson, is under fire for appearing to condone China's policy of enforced abortions. Evangelicals are splintering into myriad interest groups, from home-schoolers to abortion opponents.

Moreover, many of the old-style religious rightists have been less than enthusiastic about Mr Bush's faith-based programmes. Mr Falwell harbours "deep concerns" that government strings will come with government subsidies. Richard Land, a leading figure in the Southern Baptist Convention, has "grave reservations" about the idea. Marvin Olasky, one of the architects of compassionate conservatism, fears that organisations which focus on "conversion" will be short-changed.

None of this seems to worry Mr Bush very much. This is partly because the old Christian right has nowhere else to go. Southern evangelical Protestants are not going to vote for a Democrat, whether Mr Falwell huffs and puffs or not. More interestingly, Mr Bush is also trying to broaden the definition of the religious right from that southern white Protestant base into something rather more ecumenical.

The people he is chiefly aiming at are Roman Catholics, the biggest single religious group in the country and the most ripe for picking. Mr Bush easily won a majority of religiously active Catholics in last year's election, the best showing by a Republican presidential candidate since 1984. Now he wants more. On Sunday, continuing a string of visits to prominent Catholic institutions, Mr Bush is speaking at Notre Dame University in Indiana. The White House has a weekly conference call with an informal group of Catholic advisers, and the Republican National Committee has revived a Catholic task-force. The head of the office of faith-based initiatives is a Roman Catholic, John DiIulio. Mr Bush tries to include fashionable Catholic phrases, such as "the culture of life", in his speeches. And, in Catholic circles at least, he plays down his party's anti-government stance: Catholic voters are much more enthusiastic about government activism than are southern evangelicals.

Mr Bush is also reaching out beyond Christians to other "people of faith". He invited a Muslim imam to

the launching of his faith-based initiative. He has appointed someone to work on “Arab-Muslim outreach”, and now routinely adds the word “mosques” to his lists of religious institutions. He has resisted demands from Christian conservatives to make Muslim organisations ineligible for government grants. And he increasingly expresses his personal professions of faith in the generalised sort of language that is calculated to please everybody.

Those hard-to-catch people of faith

Does this all add up to sound politics? The data from last year’s election show that “value-based issues” helped the Republicans. And Mr Bush’s best chance of winning big industrial states such as Pennsylvania and Michigan, which he narrowly lost last year, probably lies in seducing blue-collar Catholics. But two things ought to give him pause for thought.

The first is that last year’s election was something of a post-Lewinsky freak: the chances of the next election being a referendum on morality are small. The second is that religion is a much more difficult weapon to wield than Mr Bush imagines.

Many religious groups remain firmly wedded to the Democratic Party. Last year, 96% of black Protestant voters and three-quarters of Hispanic Catholic voters chose Al Gore. And the Democrats are getting better at playing the politics of religion: look at Mr Gore’s decision to choose Joe Lieberman as his running-mate, and Bill Clinton’s ability to engineer huge turn-outs from black churches. More generally, people of faith have always had as much reason to dislike each other as they do people of no faith. And now Mr Bush has obligingly provided them with another reason: his faith-based initiative has set different religious groups squabbling about which of them are really qualified to call themselves religions.

When it comes to the polling booth, Mr Bush’s dream of bringing all “people of faith” into a religious coalition may be as naive as the Democrats’ dream of bringing all “people of colour” into a rainbow coalition. When he tried for the presidency in 1988, Jesse Jackson was moving through a crowd, urging people to vote for him. “I can’t,” replied one man, “I’m a Republican.” Mr Jackson stopped, put both hands on top of the man’s head, looked up to heaven and said, “Heal”. Mr Bush’s tactics may be a little more worldly, but converts are not guaranteed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Medical marijuana

Please let us

May 17th 2001 | SAN FRANCISCO
From The Economist print edition

No, says the Supreme Court

THE light is dim, the air pungent, but the cheerful patter of bingo numbers hardly suggests a den of iniquity. At the San Francisco Patients Resource Centre (SFPRC), near Haight-Ashbury, cannabis is still being dispensed, and people who find it relieves the pain of AIDS or cancer, or the unpleasant side-effects of medicine, are still smoking it. Indeed, says Sister Rosemarie, a nun who is one of the centre's three directors, business has been brisker than usual since the Supreme Court's decision, on May 14th, that "medical necessity" provides no exemption from the law's ban on the distribution of marijuana.

The case on which the court ruled originated across the Bay with the Oakland Cannabis Buyers' Co-operative. Like the SFPRC, this is one of the "buyers' clubs" set up in California after 1996, when the state's voters approved an initiative, Proposition 215, permitting the medical use of marijuana. The federal government, committed to "the war against drugs", has always taken a suspicious view of such herbal remedies. Three years ago the Justice Department sought, and won, an injunction to stop the co-operative and five other clubs in northern California dispensing the drug. The injunction was reversed on appeal by the circuit court in San Francisco in 1999. Now the Supreme Court has unanimously overruled the circuit court.

The decision leaves things distinctly hazy. The Supreme Court did not invalidate Proposition 215, so growing and smoking pot for medical use remains legal so far as state law goes. Indeed, three justices wrote a separate opinion from the main one in which they underlined that the court had not addressed the legality of medical use by individuals. But the Supreme Court's ruling leaves no clear legal means of supplying cannabis systematically to people who need it.

Keep off our grass

Local opinion remains on the side of the buyers' clubs. The Oakland co-operative was set up with the endorsement of the city government and police, and almost three-quarters of Oakland's voters supported Proposition 215. A jury in the city would be unlikely to penalise either smokers with a medical need or anyone who supplied them. Last month a jury in Sonoma County, north of the Bay, acquitted a man who offered medical necessity as his defence against a charge of growing 850 cannabis plants (worth remembering that, though it might not work so well in, say, Utah).

The court's ruling has thrown the future of medical marijuana back into the political arena, where public opinion also matters. The court said that the law does not permit mass distribution of the drug for medical reasons. This leaves open the possibility that Congress could change the law to provide such an exemption. That may seem a faint hope—John Ashcroft, the new attorney-general, has expressed the Bush administration's approval of the ruling—but acceptance of medical marijuana is spreading. Eight other states have passed laws similar to California's since 1996.

Most of these states are in the west, and unlike California some of them are strongly Republican. The struggle between state and federal law will sharpen if Nevada and Maine pass proposed laws to have the states themselves set up distribution systems for medical marijuana, rather than leaving it to private clubs.

The smokers in the SFPRC already live day by day. They will keep coming, they say, so long as the club is open. The club will remain open, says Sister Rosemarie, so long as they continue to suffer.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Alaska and the cruise ships

The things they leave behind

May 17th 2001 | SEATTLE
From The Economist print edition

Black water, did you say?

ALASKA has only 630,000 people. But each spring it adds a floating city of 50,000 people, more than the population of any of its towns bar Anchorage. These are cruise-ship tourists, who get on board in Vancouver and Seattle and then spend a week, or sometimes two, gazing in wonder at Alaska's fjords, forests and glaciers.

The tourists, who total more than 600,000 by the end of the season in September, are an economic godsend for Alaska's coastal towns, many of which have been hard-hit by the decline of the logging business. They spend $90m a year in the city of Juneau alone. But they also leave behind a lot of waste, most of which gets tipped overboard.

Tests conducted last summer on cruise ships in Alaskan waters showed alarming levels of fecal coliform, a bacterium found in human waste, in both treated sewage (known as black water) and untreated "grey water" from showers, dishwashers and laundries. Only one in 80 black-water samples met federal standards. Some grey-water samples contained 50,000 times more fecal coliform than the accepted standard. "It looked as bad as raw sewage," sniffs Michele Brown, the state's environmental conservation commissioner.

Tony Knowles, Alaska's governor, is backing a bill that would give the state the same regulatory powers over cruise ships that it has over supposedly dirtier industries such as oil. The bill would set strict standards and then give state inspectors summary powers to board the ships to take samples. The cruise industry would rather police itself and stick to the existing laws. These are, basically, international maritime standards and some federal rules. Over the past three years the likes of Holland America Line and Royal Caribbean have paid fines totalling $10m for polluting Alaskan waters. The cruise industry has hired four of the state's five highest-paid lobbyists to make its point.

They are earning their keep. First, attention was distracted by a much milder Republican bill, which Mr Knowles (a Democrat) complained was a "licence to pollute". In April, this rival measure had to be withdrawn after it emerged that one of its sponsors was married to somebody who worked for a cruise-ship lobbyist. Then a Republican state senator managed to bottle up Mr Knowles's bill until the legislative session ended on May 8th.

Now a furious Mr Knowles has called a special session of the legislature, due to begin on June 7th, solely to get his bill passed. The Republicans control both houses. On the other hand, Mr Knowles is a popular governor, and two things may work in his favour.

The first is that Alaskans seem increasingly picky about their shipborne guests. Even in the coastal towns, the tourism industry—with its noisy helicopter tours and brash T-shirt shops—arouses mixed feelings. In 1999, voters in Juneau approved a $5-per-passenger tax on cruise ships; there may be a statewide ballot for a $50-a-passenger tax later this year.

The second is that the cruise ships' counter-threat—that they won't come where they are not wanted—looks like pure bluster. The Alaskan cruise industry, which has trebled in size in the past decade, now accounts for $1 billion of the industry's $9 billion global revenue. And the shipping lines are already installing equipment to clean up their discharges better.

Indeed, whatever happens to Mr Knowles's bill, the cruise ships are now being brought to heel. Officials in California, Washington, Florida and parts of the Caribbean are also thinking about introducing tougher rules—and taking a second look at just what, apart from retired Nebraskans, comes out of those gleaming white liners.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Energy policy

Not half bad

May 17th 2001
From The Economist print edition

Leaving aside nuclear power, how good is the new Bush energy strategy?

EPA

"AMERICA in the year 2001 faces the most serious energy shortage since the oil embargoes of the 1970s," declares the grand new energy policy unveiled by George Bush this week. That is surely an exaggeration, but it is one with which many Americans probably sympathise. Thanks to forecasts of $3-a-gallon gasoline and more blackouts for California (and maybe even New York) in coming weeks, energy has shot up to the top of the list of voter concerns. Increasingly, this looks like being a summer of simmering discontent.

Even before the May 17th release of the energy report, prepared in secret by a team headed by Vice-President Dick Cheney, the subject had gained near official status as "the first domestic policy crisis" of the Bush presidency (just as the tangle with China was the first foreign one). Energy is an awkward issue for Mr Bush. Both he and Mr Cheney made their fortunes in oil and retain tight links with the energy business. Even before the plan was unveiled, Democrats were tarring it as a giveaway to his "price gouging and market manipulating" pals. As Dick Gephardt put it, "this is a plan mostly engineered for and by the energy companies."

In the event, though, the plan that Mr Bush's team has come up with is not as outrageous as all that. It is true that it does place the strongest emphasis on boosting the country's supply of energy. Environmental groups have seized upon the report's support for opening up some federal lands, including the Arctic National Wildlife Refuge, to oil and gas exploration. But that is neither a surprise, nor is it self-evidently evil. Given dramatic recent advances in drilling technology, it is reasonable to argue for a case-by-case analysis for such exploration.

Similarly, the report also calls for lifting output of coal, nuclear and other traditional sources of electricity. But it does not specify very many or very large subsidies (such as underhand investment or production tax credits). It puts its trust instead in sleeker approval processes. That may be disingenuous—it's hard to see how nuclear plants in particular could be encouraged without subsidies. But it is not as generous to the energy industry as critics had feared.

The new energy plan puts a great deal of effort into busting bottlenecks in America's energy infrastructure. These are sure to stir controversy—but they do address the root cause of today's energy "crisis". For example, the Environmental Protection Agency is considering simplifying how it regulates the refining of gasoline. Greens fear lower standards, but the current system is an awful mess: dozens of local variations have created a balkanised refining market and make shortages almost inevitable. Making it easier for the government to seize land for power lines may annoy western conservatives; but as California's mess shows, America needs more lines.

Until recently, Mr Cheney gave short shrift to energy conservation. But protests have forced something of a U-turn. A surprising number of the report's 100-odd recommendations focus on energy efficiency or renewable energy—areas that critics were sure would be neglected.

Around $5 billion of tax credits are being extended to renewable sources such as the use of solar panels and wind power. The report also calls for a fresh $4 billion in tax breaks for consumers who buy super-efficient cars using either hybrid-electric or fuel-cell technology. And the task-force even dares to mention the notion (fought tooth and nail by the big car firms) of raising fuel-efficiency standards for new vehicles, possibly even including gas-guzzling light trucks and sports-utility vehicles.

Whether all this will help Mr Bush to solve his first domestic policy crisis is another matter. Democrats

have already piled in to denounce the plan. Gray Davis, California's beleaguered governor, mocks even the greener components of the plan as just a "death-bed conversion". These charges are exaggerations, but that does not mean that they will not stick.

More awkward for Mr Bush is the fact that his plan will do nothing whatsoever to prevent either blackouts in California or soaring gasoline prices this summer. That too is laudable. Only heavy-handed market intervention or populist pandering would provide such short-term relief. Mr Bush, by contrast, has loftily refused price caps on electricity prices or rollbacks on the federal gasoline tax, and presented instead an energy plan focused on longer-term issues. Which is praiseworthy—but will it play in Peoria when the air conditioning fails?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Mexico

Slowing economy, quickening politics

May 17th 2001 | MEXICO CITY
From The Economist print edition

Vicente Fox is still popular, but problems—and sources of discontent—are growing

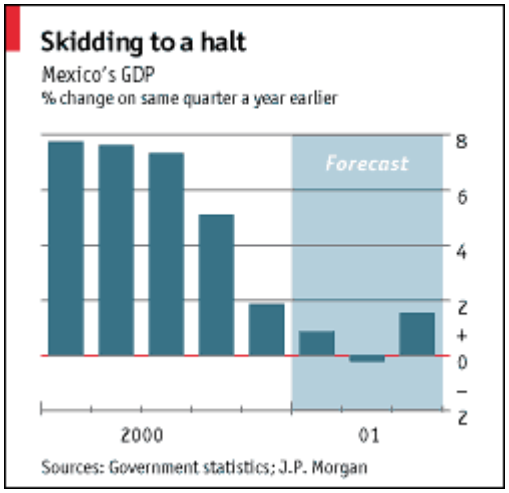
Get article background

Panos

MAY has not been easy for Vicente Fox. At Labour Day celebrations on May 1st, Mexico's president suffered his first public jeering in five months in office, from crowds angry at his plan to levy value-added tax (VAT) on food and medicines. That same day, he caved in to opposition pressure and removed four businessmen he had appointed in February to the board of Pemex, the creaking state oil monopoly. This week brought new figures showing that the economy had slowed more sharply than previously thought. Already the slowdown, along with lower oil revenues, has obliged the government to announce budget cuts. All this coincides with the start of wage negotiations with the teachers' union, an annual ordeal that has regularly brought strikes from Latin America's largest trade union.

The slowing economy and the row over the proposed tax reform have made the first dents in the popularity that Mr Fox has enjoyed since his election victory last year ended seven decades of rule by the Institutional Revolutionary Party (PRI). After five months in office, the president's approval rating has slipped to 65% from over 70%, according to a recent poll.

With nine-tenths of its exports going to the United States, Mexico is feeling the slowdown across the border, just as it had previously benefited from America's boom. In the first three months of this year, GDP grew by only 1.9% compared with the same period last year (see chart). Manufacturing and agriculture shrank. Particularly hard-hit are car makers and *maquiladoras*, the manufacturing plants concentrated on the northern border that make goods from imported materials for re-export. Of the 144,000 formal-sector jobs lost so far this year, two-thirds were in *maquiladoras*. As fears of unemployment rise, consumers are growing cautious. The government has slashed its forecast for GDP growth this year from 4.5% to 2.5-3%. Some independent economists say 2%.



Exporters' woes have been aggravated by the strength of the peso, which this week hit its highest level since mid-1998. Paradoxically, that is tribute to Mexico's new-found economic stability: it has been a haven for short-term capital fleeing problems in Argentina and Brazil. But investors are becoming uneasy at the delay in Mr Fox's tax-reform plans. "It is Mexico's biggest structural flaw," says Victor Herrera, of Standard & Poor's, a credit-rating agency. At 13.8% last year, Mexico's tax revenues as a proportion of GDP were the second-lowest among the 85 countries evaluated by S&P, behind even India's.

Mr Fox's reform is intended to increase that figure by two percentage points. Its passage without the VAT changes would not be enough, say officials, but their approval looks doubtful. Not only does the opposition object, but so, too, do many congressmen from Mr Fox's own National Action Party. The parties are trying to reach consensus on the tax bills, and are talking of holding an extraordinary session of Congress in June to discuss them. But the measures may have to wait until Congress resumes normal business in September.

Delay might be expensive, for two reasons. First, S&P has made tax reform a condition for awarding

investment-grade status to Mexico's bonds, which in turn would lower borrowing costs for companies and the government. Second, Mr Fox needs the tax rises to pay for his other plans, such as increased spending on education, social services and infrastructure, as well as to revamp Pemex and reduce the government's dependence on ever-uncertain oil income.

Mexicans await such schemes to find out whether or not their president will bring the "change" he has so often promised. So far his government's scorecard is mixed. It has been good at responding to events, less so at innovating or at dealing with Congress, where it lacks a majority.

Mr Fox won plaudits for tactfully defusing disputes with PRI diehards over state elections in Tabasco and Yucatan. In Yucatan, an election for state governor looks likely to go ahead calmly on May 27th, despite an earlier attempt by the incumbent governor to defy the law and install a biased electoral council. The president also dealt well with a march two months ago by the Zapatist rebels from Chiapas state. He managed to look as if he fully supported their demands for an indigenous-rights bill, and let Congress take the blame for watering down the bill. Foreign relations, at least with Mexico's main partners—in the Americas and Europe—are warmer and more active. Even the teachers, though calling as usual for huge pay rises, are being less belligerent.

But the big tasks for Mr Fox are to build a solid governing coalition in Congress, rather than rely on his popularity with Mexicans at large, and to turn marketing slogans into far-reaching reforms of the country's institutions. Without more tax revenue, the government risks being confined to doing little more than keeping itself ticking over, especially as Mr Fox has promised to devolve more power and money to the states. The Pemex fiasco is a big setback. Nationalist politicians still block any private stake in the oil company. If it is not to become an even heavier brake on Mexico's development, Pemex needs tough and business-minded operators to tackle its corrupt bureaucracy and modernise it. Wars on corruption and drug-trafficking have been launched with great show but, so far, few results.

Change was never going to come overnight and most Mexicans still give Mr Fox the benefit of the doubt. But, some day, they will start expecting more of him.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Cuba's debt

Slippery, shapeless and slow to be repaid

May 17th 2001 | HAVANA
From The Economist print edition

Fidel Castro's government wants a special deal from its creditors

TO THE casual visitor, Cuba's capital looks like a city on the up and up. New hotels are being built, foreign tourists spend their dollars and crumbling colonial buildings in old Havana are being restored. Not only has Fidel Castro's communist regime survived countless forecasts of its demise, but Cuba's economy, after years of hardship following the collapse of the Soviet Union, is growing again at a steady annual rate of around 5%.

That growth owes much to foreign investment, as well as to remittances from Cubans in the United States. But a lack of foreign financing—only partly caused by the United States' trade and investment embargo against the island—still holds Cuba back.

Boosted by receipts from tourism, which contributed around $2 billion, Cuba's total exports of goods and services were about $4.8 billion last year. But partly because of higher oil prices, imports of goods and services climbed, too, to $5.8 billion. The result: a current-account deficit of $639m, or 2.7% of GDP according to an estimate by the Economist Intelligence Unit, a sister company of *The Economist*.

That has increased Cuban eagerness to reach a deal on its foreign debt. Officially, this stands at close to $12 billion—roughly where it was in 1986 when the government defaulted on debt payments and suspended negotiations with creditors. But this figure is misleading. It excludes not just Cuba's debt with Russia, but also that with China, Vietnam and the Czech Republic, as well as more recent loans, such as $13m from South Africa for diesel engines bought in 1997 and $20m to Chile for mackerel imports.

At the end of April, Cuba held much-postponed talks with a dozen members of the Paris Club of creditors. Many of them have already reached agreements about Cuba's short-term debt. The talks are about $3.5 billion of medium- and long-term debt. But Cuban officials refuse to divulge details. Only reluctantly have they admitted that the talks took place at all.

That secrecy is one of the obstacles to a deal. Cuba refuses to supply economic information—for example, about its international reserves—to its creditors. Another complication is Cuba's debt to the former Soviet Union. Russia, which is now a member of the Paris Club, says the island owes it 20 billion convertible roubles ($690m at today's exchange rate, but $11.8 billion in December 1991). But Cuban officials dispute this: they say the country they borrowed from no longer exists, and that any debt should be offset against damage to the island's economy caused by Russia's failure to honour Soviet export contracts to Cuba.

A third problem concerns Cuba's refusal to accept any conditions in return for debt relief. Although Cuba belongs to the World Trade Organisation, it is not a member of any international lending body, such as the IMF or World Bank. Though the government has stuck rigidly to its own target for the fiscal deficit (of less than 3% of GDP), Mr Castro refuses to contemplate any plan that would result in social-spending cuts in a country proud of its education and health systems.

Cuba also wants to pick and choose which countries it pays back. France, Italy and South Africa have recently cut off further credit to Cuba, in a bid to claw back some of what they are owed. Japan and Germany are receiving payments.

Because of the lack of guarantees that loans will be repaid, those willing to lend to Cuba demand high interest rates. But some sort of deal may eventually be cut. Despite all the difficulties, some foreigners remain interested in gaining a toehold in a market from which American rivals are banned, and which is likely to open up once Mr Castro is gone.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Venezuelan politics

Chavez signals to the left

May 17th 2001 | CARACAS
From The Economist print edition

The president is launching a new party

HUGO CHAVEZ flew off last week on a jaunt to six Asian countries and Russia, leaving Venezuelans perplexed as to the future direction of their president's "Bolivarian revolution". So far that revolution, named after South America's independence hero, has stayed just about within democratic confines. But it has not brought much change for the better to Venezuelans. And Mr Chavez's frustration seems to be growing.

Earlier this month, the president, a former army officer, announced plans to relaunch the Revolutionary Bolivarian Movement (MBR), a conspiratorial military-civilian outfit that was behind an attempted coup he led in 1992. The MBR faded from view after Mr Chavez was converted to electoral politics. His political vehicle in presidential elections in 1998 and last year was the Fifth Republic Movement (MVR), a much broader organisation.

The new MBR, Mr Chavez suggested, would be a sort of umbrella alliance, "a movement of movements". But he invited two veteran radical left-wingers to join him in heading it. One is Pablo Medina, who leads a small, leftist party which quit a pro-Chavez alliance last year.

In the same speech, Mr Chavez said angrily that he had "had it up to here" with corruption and was contemplating "extraordinary measures" to deal with it. A presidential adviser then revealed that he had been asked to study the declaration of a state of emergency, granting the president power to rule by decree. Since Venezuela's new constitution already concentrates power in the president, who has a huge majority in the legislature, that threat alarms the weak opposition.

Mr Chavez seems to feel frustrated by the poor quality of the MVR's leaders, and to feel betrayed by growing evidence of graft in his government, especially in Plan Bolivar, a social programme run by the army. Critics predicted as much, given Mr Chavez's undermining of Venezuela's institutional checks and balances by, for example, picking allies for the Supreme Court and the job of public prosecutor.

The president's speech went down badly with the moderate party in his alliance, the centre-left Movement to Socialism (MAS). It should choose whether it was for or against the "revolution", Mr Chavez replied. He said he would call on a previously unknown Political Command of the Revolution to determine the future of the alliance with the MAS. This turned out to be a reference to the clique charged with renovating the MBR.

It is Mr Chavez's habit to alternate incendiary talk with conciliatory gestures. For all its political changes, his "revolution" has done little to interfere with the market economy—though nothing to promote it either. Before setting off, the president denied that he was planning to impose exchange controls, and claimed that the row over a state of emergency had been stirred up by the media. But swaying from side to side is not the best way to move forward.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil and AIDS drugs

A cure for high prices

May 17th 2001 | BRASILIA
From The Economist print edition

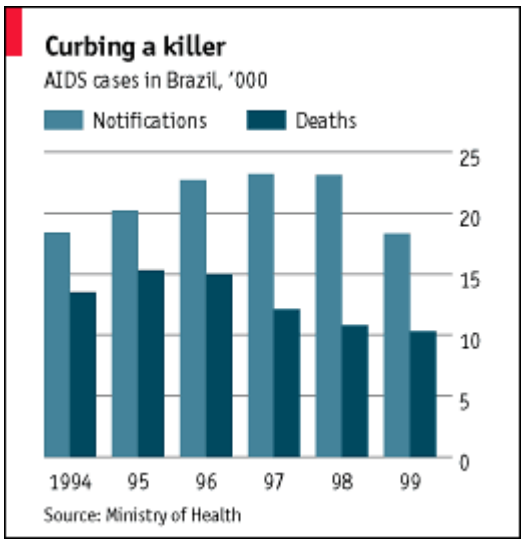
The United States and the drug firms have been worsted over patents

JOSE SERRA, Brazil's health minister, this week took his battle against the United States and multinational drug firms over phamaceutical patents to the World Health Organisation's annual assembly in Geneva. At the assembly, which runs until May 22nd, Mr Serra was due to propose a vote condemning the use of trade agreements to obstruct poor countries' access to cheap medicines. This is aimed at the United States, which in January, at the multinationals' urging, complained to the World Trade Organisation (WTO) about Brazil's patent law. Brazil claims that the involvement of the WTO threatens the country's widely praised programme for the prevention and treatment of AIDS.

Last month Brazil won a similar vote at the UN Human Rights Commission. The United States was the only country of the 53 represented not to support a motion urging governments to refrain from measures that would limit universal access to AIDS drugs. A month earlier, Merck, an American company, had agreed to cut sharply the price it charges Brazil for efavirenz, an AIDS treatment, after Mr Serra had threatened to break its patent. He is making a similar threat against Roche, a Swiss company, over another drug, nelfinavir. Roche has agreed to talk.

Brazil's AIDS programme, which has helped to curb the mortality rate from the illness (see chart), includes free treatment with a cocktail of 12 drugs. The government says importing the two patented products cost 39% of the $303m that it spent on AIDS drugs last year. The other ten, which are not patented in Brazil, are made locally and cheaply. Merck backed down when a Brazilian government laboratory showed it could make efavirenz cheaply, and thus that Mr Serra's threat was no bluff. The lab is now busy copying nelfinavir.

Brazil's victories have been reinforced by the withdrawal last month of a court case in South Africa by 39 firms against a law allowing its government to ignore patents and to buy AIDS drugs from cheap, unlicensed sources. Both countries have won support from international poverty-relief agencies for their stance. "World opinion is on our side," says Mr Serra.



But American officials argue that Brazil is confusing the issue by claiming that the row is about AIDS drugs. The Americans accept that WTO rules let Brazil break patents if it faces a health emergency. What they dispute is a clause in Brazil's patent law that lets it break a patent if the owner fails to make the product there. They fear that this will be copied by other developing countries and will be used to break patents on many other products.

Brazilian officials admit, privately, that their campaign has broader motives. They yielded to American pressure and introduced patent protection in 1997, eight years earlier than they were obliged to under WTO rules. They are angry that the United States is now showing "ingratitude" by quibbling over a clause in Brazil's law that it has never even threatened to use. They are also furious at foreign drug firms, for not offering cheap "generic" versions of drugs—for all sorts of ailments—whose patents have expired, even though they do this elsewhere. They also say that the companies broke a promise to invest heavily in Brazil once the patent law was passed. The drug firms insist that they have invested $1.7 billion since 1996.

Whatever the rights and wrongs of the case, the victor so far has been Mr Serra. That does no harm to his quest to be a presidential candidate in an election next year. He can present himself as the man who faced down ruthless multinationals and a bullying Uncle Sam to bring cheap medicines to the sick and the poor.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japan

A turn to the right?

May 17th 2001 | TOKYO
From The Economist print edition

Japan's prime minister, Junichiro Koizumi, has made it clear that he is a nationalist. But it is not clear what sort of nationalist

Get article background

AMID the imperial army's field guns that rust in the spring rain lies the massive hulk of the *kaiten*, a manned torpedo. At the gift shop, the white-robed Shinto priest sells guidebooks, charms and telephone cards bearing photographs of a suicide aircraft, the prize exhibit in the shrine's museum. Inside, an inscription honours Japan's kamikaze warriors. Before the shrine, a middle-aged man in a black suit throws coins into the offertory box and claps his hands, summoning the spirits of friends or relations who gave their lives for their country. Two great gold chrysanthemum crests, symbols of the imperial household, emblazon the gate.

It is to this Yasukuni shrine that Junichiro Koizumi, Japan's new prime minister, says he will pay an official visit on August 15th. Mr Koizumi says he wants to pay his respects to Japan's war dead, whose spirits Yasukuni enshrines and commemorates. Like most of what Mr Koizumi has said since he took office last month, his Yasukuni visit has struck a popular chord at home. Since the war, only Yasuhiro Nakasone has dared to worship at Yasukuni as prime minister, and even he went only once, after a barrage of criticism from China and South Korea blocked any return. Now, trumpets the right-wing press, the Japanese have a prime minister with the courage to brave foreign bullies and show pride in his nation. But if Mr Koizumi goes, there will be a huge uproar. Among the enshrined spirits are the souls of seven executed war criminals.

What this says about Japan's new prime minister is not entirely clear. In part, he seems typical of a younger generation of conservative Japanese politicians. He wants to end the pretence of Japan's "self-defence forces" and call them what they are: modern, well-equipped armed forces. He seeks a more active role for Japan in its security alliance with America, including an explicit commitment to come to America's aid in the event of an attack on its forces in the region. That would mean revising, or at least reinterpreting, Japan's war-renouncing constitution, which Mr Koizumi also says he favours. He wants a more assertive Japan, ready to take its place among the world's great powers.

Amid these modern nationalist currents lie traditional conservative roots. Mr Koizumi has spent his entire career in the Liberal Democratic Party (LDP) among hawks, with what is now called the Mori faction. As a young man, he got a start in politics as a private secretary to Takeo Fukuda, the faction's boss at the time. Mr Fukuda did not support Japan's Asian empire-building with the passion of the faction's previous leader, Nobusuke Kishi, who was briefly imprisoned after the war as a suspected class Awar criminal. But, as a bureaucrat in the 1930s, Mr Fukuda spent some of his formative years in China, where he advised the pro-Japanese puppet government in Nanjing. Among Mr Fukuda's protégés is Shintaro Ishihara, a populist nationalist and professional China- baiter who governs Tokyo. "This is Mr Koizumi's DNA," says Takao Toshikawa, editor of *Insideline*, a newsletter.

The trouble with books

An early test of Mr Koizumi's populist leanings has come in the form of a row about Japanese history textbooks, whose contents the education ministry vets. On May 8th, South Korea handed Japan a list of revisions that it wants to see made to several textbooks for pupils aged 13 to 15. Of the 35 items on the Korean list, 25 concern a new book, edited by a group called the Japanese Society for History Textbook Reform, which China has also objected to. This society, formed in 1997, wants to rid history textbooks of

what it says are excessive descriptions of the imperial army's cruelty in China and the rest of Asia. This "tendency towards masochism" teaches self-loathing and suppresses a healthy love for one's country, says the society.

It also distorts history, argues Nobukatsu Fujioka, a Tokyo University professor and a founding member of the society. "I am not saying that it did not commit acts of cruelty. But compared with the Chinese, or the Americans, the Japanese army was not unusually cruel," he says. In Mr Fujioka's view, Japanese schoolchildren are taught a naive version of history which plays up the moral barbarism of the Japanese army at the expense of the realpolitik of colonial Asia, with Japan battling America and the European powers for an equal and independent footing in the world.

Right-wing newspapers such as the *Yomiuri* are thumping the table in protest at Korea's "interference" in Japan's domestic affairs, though the education ministry says it will bring together Japanese historians to look again at the textbooks, with Korea's complaints in mind. But Mr Koizumi has now said there will be no changes, prompting Chinese rage. He does propose that Japanese and Korean historians should work together, an old idea the Koreans say distracts from the issues at hand.

If Mr Koizumi indeed turns out to be a moderate nationalist, he will be a pioneer in Japanese politics. Japan has passionate ideologues, on both left and right, but precious little in between. As the LDP's hawks try to rewrite the constitution, left-wing opposition parties still fight the security alliance with America. The Social Democratic Party pins its faith for peace in East Asia on a much-shrunken, strictly constitutional self-defence force and a multilateral "comprehensive security system". Mr Koizumi wants to restore national pride. But Japan's far-from-clean break with its past and its cold-war ideological battles have left almost no symbols of nationhood untainted. To the left, even the flag and the national anthem are symbols of repressive Japanese militarism, hopelessly entangled, like the Yasukuni shrine, with Japan's dark history.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japan's new foreign minister

A new broom in the Gaimusho

May 17th 2001 | TOKYO
From The Economist print edition

Makiko Tanaka is upsetting Japan's diplomats

AN UNRULY horse, was her father's verdict. Mandarins at Japan's foreign ministry (*Gaimusho*) would surely agree. Three weeks into her job as foreign minister, Makiko Tanaka's kick is breaking bones. She intervenes in the delicate ministerial politics that govern personnel appointments. She speaks critically of her aides before journalists. She even vows a proper purge at the ministry after a scandal over misused diplomatic funds. Mrs Tanaka is quick, witty and popular with the public. But unlike her father, Kakuei Tanaka, a former prime minister, she is clearly no diplomat.

AP

Tanaka takes them on

Nor, say her critics, is she up to the job. Last week, Mrs Tanaka cancelled several important engagements and telephone calls, including (though she denies it), a meeting with Richard Armitage, America's deputy secretary of state and President George Bush's top Japan hand. Pushing aside policy, Mrs Tanaka has instead waged daily, acrimonious, battles with her ministry's top men.

In her spare time she briefs the press against her officials and writes personal replies to the hundreds of well-wishers who have sent bouquets of flowers to her office. "Too emotional," was the verdict of Yoshiro Mori, Japan's former prime minister, repeating a slur on women in power everywhere. Yet seeing Mrs Tanaka's high-handed, indeed rude, treatment of her officials in front of the television cameras, even some of her supporters have begun to agree.

Much of this is simple shock. Thanks to the pressures of the ruling Liberal Democratic Party's personnel system, Japanese cabinet ministers cannot expect to spend much time in the job. So ministries, especially the urbane elite of the foreign ministry, are used to running themselves. The diplomats seem scandalised that an elected representative of the people believes she is their boss. That she is a woman who both dares to speak her mind and insists she is right rubs salt into the wounds.

Mrs Tanaka will bide her time. Opposition parties have swung a punch or two her way. Critics in her own party have also had a try. She is a rude, unprincipled lightweight, squeal her critics in the ministry. But all their attacks have wilted because, unlike them, the public loves her, at least for now.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

India's elections

Hope and glory for Congress

May 17th 2001 | DELHI
From The Economist print edition

Voters in state elections bolster parties outside the national coalition

MAY 10th was a good day for India's opposition parties. Congress, the main foe of the ruling national coalition, unseated local governments in Assam and Kerala. It now controls 12 of 35 states and territories. Jayaram Jayalalitha, a former actress, trounced the government of Tamil Nadu, proving that a corruption conviction need not dim charisma. The Communists will extend their rule of West Bengal to nearly 30 years after winning their sixth straight election there. These parties could, conceivably, gang up on the Bharatiya Janata Party (BJP), which heads the 17-member National Democratic Alliance (NDA) that runs the country at the national level.

But will they? No BJP government was up for re-election in the five states, including tiny Pondicherry. Only in Tamil Nadu did a government led by a member of the Alliance face the voters (who were not very happy with it). Yet the NDA may now even add to its majority. Disgruntled MPs from the party of the defeated challenger in West Bengal may be ready to defect to the ruling coalition, which need not face an election until 2004. Even so, for the time being at least, only one party is big enough on its own to bring down the government, the Telegu Desam Party of Andhra Pradesh. But it has good reason not to do so, since that would mean backing Congress, its main rival for power in the state, or facing new national elections.

The opposition, too, has reason to be circumspect. In 1999 it prematurely toppled a BJP-led government, prompting new elections—and defeat for the topplers. And many elements of the opposition oppose each other. Although they share a "secular" ideology (whereas the BJP is Hindu-nationalist), Congress and the constituents of the centre-left People's Front are rivals for power at state level. Congress and the Communists fought in West Bengal and Kerala. In Uttar Pradesh, the biggest state, Congress is a feeble competitor for the anti-BJP vote.

Victories in Assam and Kerala have heartened Congress, and quietened talk that its Italian-born leader, Sonia Gandhi, is neither a politician nor an Indian. But in a by-election at the same time, Congress lost one of its few parliamentary seats in the northern state of Uttar Pradesh. The party remains less than a juggernaut.

And though the elections were not exactly a referendum on the BJP-led government in Delhi, they were a humiliation for it. The prime minister, Atal Behari Vajpayee, campaigned for the ruling parties in Tamil Nadu and Assam, but he evidently did them no good. The BJP performed dismally in states where it fought on its own, winning no seats in Kerala and West Bengal. In Uttar Pradesh the BJP is the ruling party, but in the by-election there it came fourth, a bad omen for the party for next year's state election.

The election rebuff has knocked the BJP. The party may now lack the courage to move quickly on economic reform, which requires controversial measures, such as liberalising labour laws. Suspicions of corruption have hung over the party since March, when journalists secretly filmed leaders of the BJP and its allies taking money in exchange for help in selling fictitious armaments to the government. The BJP is unlikely to win back support, or be bold, as long as its *izzat*—Urdu for honour—is draining away.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

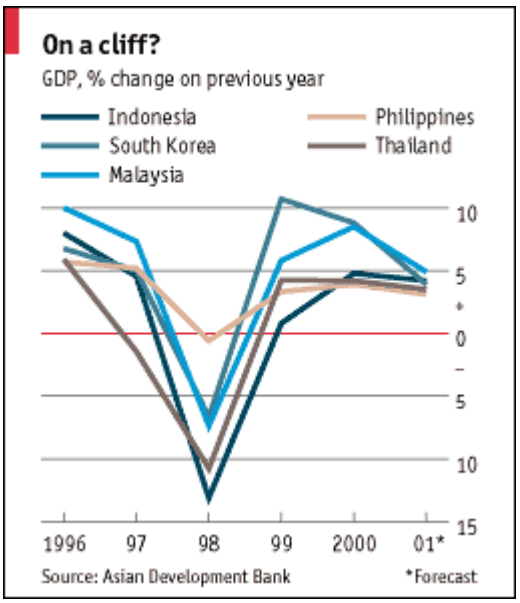
Asian economies

The east is in the red

May 17th 2001 | SINGAPORE
From The Economist print edition

East Asian leaders are worrying about a new economic downturn

SLIDING currencies, weak stockmarkets, soaring corporate defaults: it all bears an eerie resemblance to the nightmare of 1997-98. After achieving economic growth of around 7% in both 1999 and 2000, the countries of developing East Asia are suffering a sharp slowdown. In Thailand, where the last crisis began, some analysts believe the economy may actually have shrunk in the first quarter of this year. Recoveries in the other countries worst hit in 1997-98—Indonesia, Malaysia, the Philippines and South Korea—are all also under threat. Policymakers and multilateral lenders insist another crisis is not looming. But this month's announcement of a string of defensive "currency-swap" arrangements shows there are genuine concerns.



In one respect, matters look much bleaker than they did in 1997. Then the region—most of it, anyway—was seen as politically stable. Now, from Indonesia to the Philippines, it looks explosive. In other respects, there are some uncomfortable parallels. As in 1996-97, exports from the region are sagging, and the yen is showing weakness against the dollar.

Apart from America's immediate neighbours, no part of the world is as vulnerable as is East Asia to a downturn in demand in the world's largest economy. In non-Japan Asia, exports account for as much as 37% of regional GDP. Worse, much of the region relies heavily on sales to America's technology industry. The bursting of that bubble has thrown workers out of jobs in Asia as well as in Silicon Valley. Malaysia is the worst affected: some 80% of its exports to America are information-technology (IT) products.

Economists now worry that two factors may make the present troubles more than a cyclical slump. The first is evidence that American firms have heavily over-invested in IT, so even if the American downturn proves short-lived, rapid recovery may not be accompanied by a similar revival in IT spending. Second, many analysts now expect the policies of Junichiro Koizumi, Japan's new prime minister, to lead to a period of continued yen weakness, despite Japan's big current-account surplus with America. As was seen in 1997, a weak yen puts competitive pressure on other Asian currencies to depreciate. Since many companies in the region still have debts denominated in dollars, that is dangerous to corporate health.

Nevertheless, these are reasons to worry about long-term economic performance rather than about an imminent crisis. And, as the Asian Development Bank argued at its annual meetings last week, there are many reasons why the region is much less vulnerable to a sudden financial shock than it was in 1997. Of its currencies, only China's, Hong Kong's and Malaysia's are now pegged to the dollar and, of those, only Malaysia gives immediate cause for concern, though China has said that the weak yen threatens its own currency. All five "crisis" countries now run current-account surpluses. None is as dependent on short-term bank loans.

Some economists even see room for optimism. Manu Bhaskaran of SG, a French securities firm, in Singapore, argues that the present shake-out in America may actually be good news for the region's exporters. He sees a strong correlation between lay-offs

by American companies and American imports of Asian electronics a few months earlier. Companies replace people with machines, and machines need electronic components made in Asia, so “bad news for American workers is good news for Asia”.

Others look to another quarter altogether for hope: China. It is customary to see China as something of a threat to the rest of the region, because of its success in hoovering up nearly four-fifths of the foreign direct investment that comes there. But it also offers an opportunity. It remains relatively cushioned from the impact of the stuttering of other parts of the global economy, and its expected accession to the World Trade Organisation should open more of its market to Asian exporters.

But China remains too small an economy to do much to fill the gap left by falling American demand. Nor can Japan, still wading in stagnant economic waters, or Europe take up the slack. Moreover, regional integration, which has seen intra-South-East Asian trade climb to about a fifth of the total, makes a regional export slump somewhat self-reinforcing.

The region’s leaders may be wishing they had done more to build the foundations of stronger domestic demand during the years when the American economy was cruising and pulling the rest of the world along in its wake. In particular, they may rue not having undertaken a more thorough restructuring of indebted companies, and of the banks that had lent them money. The necessary reforms always entailed painful short-term economic, social and political costs. But if they were difficult when the global economy was humming, they are very much more difficult now that it is wobbling.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Taiwan

Beginners on trial

May 17th 2001 | TAIPEI
From The Economist print edition

Taiwan's new government, one year on

"BLISS was it in that dawn to be alive," wrote William Wordsworth of the French revolution. In Taiwan, one year ago on May 20th, a less tumultuous transfer of power produced similar sentiments, at least among many voters. Out went the Kuomintang (KMT), the party that had ruled Taiwan, until recent years often brutally, since the end of Japanese colonialism in 1945. In came the Democratic Progressive Party (DPP), a new bunch of democratising idealists determined to sweep corrupt politics into history.

Not everyone was blissful about the DPP. Its presidential candidate, Chen Shui-bian, had won a three-cornered race two months earlier only because the forces arrayed against him were, despite ideological similarities, so deeply divided on a personal level that they split the vote against him. That six out of ten voters were opposed to Mr Chen has been a handicap for his government since it took office a year ago. The media, mostly controlled by KMT supporters, have constantly derided the government's competence, and have found a public only too eager to applaud their derision.

Sometimes the criticism has been justified. An attempt by the government to stop the construction of the island's fourth nuclear power plant was botched. The dispute over the future of the plant provoked a constitutional showdown between the government and the legislature—where the DPP is in a minority. The government then tried, with little effect, to whip up popular feeling against the plant. Its construction is now to go ahead. But the DPP has also been a victim. Though pro-KMT newspapers point out that the party has broken many of its election promises, they do not often give the reason for its failure: that the KMT-dominated legislature keeps a chokehold on the budget. As critics are keen to point out, things are indeed gloomy in the economy: unemployment threatens to top 4% and growth to fall below 5%, both for the first time in a generation. But much of the downturn is a result of the dramatic slowdown in the United States, Taiwan's principal export market.

One area where the government has done better than expected is in its policy towards China. The worry in the United States, Taiwan's protector, was that the coming to power of what were seen as pro-independence hot-heads might push a bellicose China into carrying out its threat to invade. But the DPP has behaved with caution. A mark of its success is that tensions with China at present matter far less in the political debate than does the economy.

The sagging economy could harm the DPP in the legislative elections due in December. But the government may take comfort that for many Taiwanese the KMT holds little appeal either. During the past year the KMT has changed from a staunch supporter of Taiwan's sovereignty into a sly negotiator with China over the country's future. The KMT's vice-chairman, Vincent Siew, visited Beijing and Shanghai last week. For most Taiwanese, who want China kept at arm's length, that was not alluring. And China's rejection of Mr Siew's idea of a cross-strait common market has damaged any KMT claim that it is better than the DPP at negotiating with China.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Philippines' elections

Middle-class rage

May 17th 2001 | MANILA
From The Economist print edition

President Arroyo's allies did well in this week's voting

AP

Voting Arroyo

EVERYONE knew that Joseph Estrada's impoverished supporters would vent their fury at the polls. They had been angry enough in January, when he was ousted from the presidency and replaced by his vice-president, Gloria Macapagal Arroyo. Their outrage grew in late April, when he was arrested on corruption charges. Just as thousands of Mr Estrada's followers attacked Mrs Arroyo's palace on May 1st, millions of them voted as expected for his Senate candidates on May 14th. Yet, for all their efforts, it appeared by mid-week that Mrs Arroyo's team had won through in the battle for the Senate, taking seven or eight of the 13 available seats. Middle-class Filipinos, it seems, had done some venting of their own.

"I have never seen Tony so angry," said a friend of one such voter. "Normally, he is Mr Cool." Tony—he would rather not see his last name in print—is a company lawyer in a provincial city. He supports Mrs Arroyo's coalition, and managed the campaign of its candidate (the challenger) in his city's race for mayor. The campaign exposed him to the ugly side of Philippine democracy. Two days before the elections, which were to fill not just 13 of the Senate's 24 seats but also thousands of local posts and the entire House of Representatives, he was bitterly recounting some of those lessons. His frustrations mirror those of Mrs Arroyo's middle-class base.

Before anyone went to the polls, Tony knew that the incumbent mayor would cheat, would win easily and would bolster Mr Estrada's Senate candidates in the process. While trying to fight back, he learned how much local power bosses rely on poor, illiterate voters, often living in decrepit squatter communities. Although their elected leaders systematically rob the country, those voters will happily return them to office every three years in exchange for a bit of their money back. "I never saw it before, but I realise now that they want us to remain [a country of] squatters," Tony says of the local bosses.

Mrs Arroyo's other supporters have echoed those sentiments. The class propaganda churned out by Mr Estrada's loyalists, they say, overlooks the twisted relations between poor voters and fat-cat politicians who take their votes and do little with them—to the fury of middle-class voters, who see nothing being done to rein in corruption, tackle congestion, or promote a sounder economy.

Hence the polarised reaction to the May 1st riots. While Mr Estrada's backers portrayed them as an expression of outrage by the downtrodden, Mrs Arroyo's accused the opposition of using the poor as "cannon fodder". Voters separated sharply along class lines, but only the very poor—the least informed, say their detractors—backed Mr Estrada, allowing Mrs Arroyo's broader base to carry the day.

A popular news broadcaster ran independently and took the top place in the nationwide Senate race. But it looked as though seven of the next eight places went to Mrs Arroyo's candidates. The four candidates who opposed Mr Estrada in his impeachment trial trounced the three who backed him. Only one of the three seemed likely to win a seat.

Exit polls and early tallies suggest that Mrs Arroyo will win an eighth seat as well, giving her a 13-to-11 majority in the Senate. But since Senate votes rarely split down party lines, that eighth seat is not crucial. Mrs Arroyo has done well enough in what had been billed as a referendum on her succession. Using that mandate for real reforms will be much tougher.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

America and North Korea

Ready, steady, talk

May 17th 2001
From The Economist print edition

As America prepares to resume talks with North Korea, expect problems

NEXT week, when George Bush sets out more of his thinking about the future of America's armed forces, Asia's problems are expected to loom large. A report published this week by RAND, a think-tank, and partly written by a man who is now one of Mr Bush's senior advisers, argues that to help keep a "dynamic peace" in this fast-changing region, in future America will need to broaden its activities from north-east Asia, where its forces are concentrated in Japan and Korea, to deal with China-Taiwan tensions, instability in south-east Asia and hostilities between India and Pakistan. Yet for now, says even this report, "overshadowing all else" from an American perspective is still the military confrontation on the Korean peninsula. So will Mr Bush resume talks with North Korea on ways to end its destabilising missile production?

After talks last week with America's deputy secretary of state, Richard Armitage, South Korean officials are hoping for a resumption of their ministerial contacts with North Korea, possibly later this month. These were frozen by North Korea in March after Mr Bush told South Korea's Kim Dae Jung that he did not trust the North's leader, Kim Jong Il, and was in no hurry to resume negotiations with him. Earlier this month the northern Mr Kim nonetheless told a visiting delegation from the European Union that he would stick to his moratorium on missile tests until 2003, though sales would continue, since he needed the cash. Hoping to widen the dialogue, the EU agreed this week to open diplomatic relations with North Korea.

But it is America's attention that North Korea craves. The results of the Bush administration's review of North Korean policy are expected to be announced later this month, or in early June, when the secretary of state, Colin Powell, visits the region. America has been pondering what it will take to monitor a deal that would reliably end the production and sales of North Korea's longer-range missiles. But will North Korea accept America's verification rules?

The North's Mr Kim has made it plain that a lot—above all, his return visit to Seoul, the South Korean capital—rests on the outcome of America's review. Family reunions that South Koreans set much store by are also in abeyance, and work has stopped on a new freight rail link across the "demilitarised zone"—actually the world's most heavily armoured border—between North and South Korea.

Yet Mr Bush has also let it be known that he will expect "comprehensive reciprocity" in future from North Korea. So far, all the world has seen in return for its quantities of food aid for the North's malnourished people has been stepped up military exercises near the border with South Korea. Mr Bush's officials would like to see a reduction in both the missile threat and the conventional military threat from North Korea. This sort of talk makes South Korean officials nervous, since they have tried before and failed, in the early 1990s, to pin North Korea down to practical confidence-building measures that might reduce the military menace across the border—the North's highest card in their inter-Korean diplomacy. When talks do resume, they will be tough.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China's press

Let a hundred papers boom

May 17th 2001 | BEIJING
From The Economist print edition

Competition is breaking in China's newspaper business

IT CERTAINLY is not Fleet Street, but the dictates of the market are increasingly forcing once tame and stodgy state-controlled publications in China to do something they once would never have dreamed of—appeal to their readers. Sometimes that means indulging in the kind of sensationalism once condemned as the preserve of the bourgeois press. Increasingly, too, it means waging war on competitors.

China normally likes to keep squabbles between state-owned ventures private. This is particularly true of disputes between newspapers, which are still officially called "mouthpieces" of the Communist Party and whose mission, at least in theory, is to promote the party line. But in the southern province of Guangdong this month, a battle for market share between local newspapers has erupted into open feuding, to the embarrassment of the local authorities.

The scene of the conflict is Shenzhen, a "special economic zone" where business practices and the people's way of life are strongly influenced by neighbouring Hong Kong. It is the place of a media boss's dreams—cosmopolitan, with an affluent population and a newspaper industry still shackled by the unadventurous ways of yesteryear. Enter *Southern Metropolitan News*, a racy (by mainland Chinese standards) tabloid from the provincial capital Guangzhou. Two years after its move into the city, *Southern Metropolitan News* is now Shenzhen's paper of choice, helped by a marketing ploy familiar in the capitalist world but new to China—the addition of a local supplement.

The big advantage enjoyed by *Southern Metropolitan News* was precisely that it was not a local newspaper. This meant that, unlike its two broadsheet rivals, *Shenzhen Special Zone News* and *Shenzhen Commercial Daily*, it was not hamstrung by any web of political or business connections in the city. It could report relatively freely without fear of treading on toes. The supplement thus became a huge attraction to local readers.

But *Southern Metropolitan News* has a weakness. It lacks its own sales outlets in Shenzhen. Most of the hundreds of newspaper stalls on the streets are controlled either by the city's own newspapers or by the Post Office. A few days ago the city-government-owned company that controls newspaper distribution ordered that out-of-town papers, except for major party organs, were not to be sold at street stalls without approval.

According to *Southern Metropolitan News*, all vendors would need to pay the distribution company a prohibitive 600 yuan ($72) a month as a "management fee" for each non-Shenzhen title approved. The official pretext for this order was to keep "pornographic and reactionary" publications out of the city, but *Southern Metropolitan News* saw it as a conspiracy to curb its sales. It plastered the news on its own pages, accusing the Shenzhen authorities of "protectionism".

On May 10th, when the new edict came into effect, the newspaper thought of a new promotional gimmick. That day it sent some 300 of its own employees and circulation staff out to hawk copies on the streets. Now by its own (unverifiable) estimates, the paper is exceeding its usual daily circulation in Shenzhen of 340,000 copies by some 20,000—helped by any non fee-paying vendors who are willing to sell the paper furtively.

Wars like this are likely to become more frequent. "It has got to the point that the socialist spirit among newspapers has gone," says Joseph Chan, of the Chinese University of Hong Kong. In the 1990s, most newspapers lost the huge government subsidies that used to keep them afloat. But there is big money to be made from advertising revenue, much of which has gravitated towards the handful of newspapers that have built up a mass appeal.

No one is immune from competition now. On May 11th *Beijing Youth Daily* started publishing a weekly

English-language newspaper, *Beijing Today*, which it hopes will become daily eventually, providing direct competition to the staid central government organ, *China Daily*.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Italy's election

Berlusconi wins. And now?

May 17th 2001 | ROME
From The Economist print edition

Silvio Berlusconi and his centre-right coalition won the Italian general election handsomely. Now the voters await handsome performance of the radical change he promised

Get article background

AP

IT WAS a clear victory and, as his centre-left opponent, Francesco Rutelli, promptly said, a legitimate one. Unbothered by international warnings about his past business methods, current legal tangles and continuing spectacular conflict of interest, Italian voters on May 13th gave Silvio Berlusconi the green light. Like him or not, here is Italy's next prime minister. Much less usual, he has a solid majority in both houses of the Italian parliament, and may well last its full five years.

His House of Freedoms coalition looked sure of a solid majority in the lower house, and got it, with 367 seats out of 630. A Senate majority had looked less certain, but the coalition took that too, with 177 of the 315 seats (out of 324) that are elected. A further bonus for Mr Berlusconi was the poor showing of his troublesome allies of the Northern League, the once separatist, now mainly populist, "friends" who dumped him in 1994, during an earlier, unhappy stint as prime minister. While Mr Berlusconi's own Forza Italia pushed up its share of the vote from the 21% of 1996 to 30%, the League fell from over 10% to under 4%—the threshold for getting a share of the seats allocated by proportional representation (a quarter of those in the lower house). Mr Berlusconi's other notable partner, the National Alliance, also saw its vote fall, if only from from 16% to 12%.

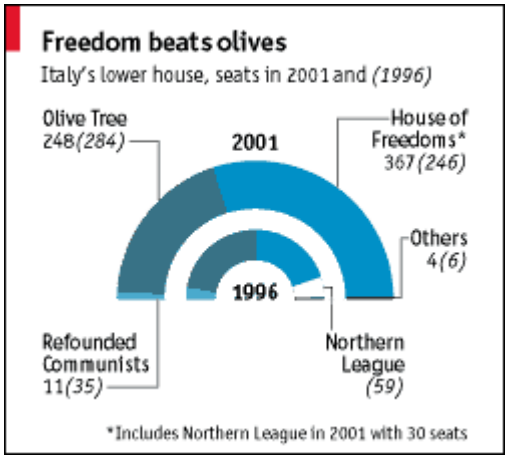
Mr Rutelli's Olive Tree coalition, in power for the past five years, held almost all of its share of the vote, going from 40% down to 39%, but it lost many seats, as happens in first-past-the-post elections. Its candidates were swept away in most of northern Italy and in the south: in Lombardy the House of Freedoms took 70 of the 74 non-PR seats, in Sicily every seat in both houses. Within the Olive Tree, Mr Rutelli's own Daisy, a new umbrella group of four parties, did well, scoring 14.5%, a success that has allowed Mr Rutelli, who fought a lively campaign, despite limited finances and indolent partners, to become leader of the opposition.

Smaller parties were squeezed out. Emma Bonino's Radicals, Giulio Andreotti's European Democracy, Antonio Di Pietro's Italy of Values, the Northern League, the Roman Catholic White Flower and the Greens' Sunflower all failed to reach the 4% threshold. The Radicals are out of parliament altogether. The Refounded Communists shrank to 5%. Though the two big coalitions are indeed that, not parties, for the first time, after 14 elections since 1948, the new Italian parliament will look like the British or American legislatures.

This is what Italy's adoption of first-past-the-post for three-quarters of its seats was meant to achieve, but in 1996 did not. It is also just what Mr Berlusconi wanted, and he was delighted when he got it.

What now? Forming a government will take time—for procedural reasons, even the formal invitation to do so from President Carlo Azeglio Ciampi is not likely till early June—but it will not take the umpteen weeks of murky manoeuvre that it used to. Then, what Mr Berlusconi's voters plainly most wanted—and reckoned *il Cavaliere* (the Knight) to be the one man who could deliver it—was change. Speaking on television from his palatial villa in Arcore, near Milan, after his victory, he reflected this mood. "Italy has turned a page," he said, and added that "I intend to win the respect of people who did not vote for me"—a respect denied to

some previous prime ministers even by those who had.



Turning to foreign affairs, he had little new to offer. He was "proud to be in Europe," he said, and he has had a letter from Romano Prodi, president of the European Commission—and a founder of the Olive Tree—congratulating him. He seems also to hope for some kind of special relationship with the United States. In home affairs, it is a different story. At his first cabinet meeting, said Mr Berlusconi, he would take steps to cancel the outgoing government's school reform, abolish inheritance tax and draft a new law to speed up contracts for large public works; all as set out in his "Contract with the Italians", published in full-page advertisements during the campaign even in such unlikely-seeming (but in fact craftily picked) newspapers as the *Gazzetta dello Sport.*

Supposedly, Mr Berlusconi has already chosen his future ministers. But just who they will be only he knows, though rumours abound; as they do for the one post not—it is said—yet filled, that of foreign minister. For it, three names lead: Pier Ferdinando Casini, whose zeal for Mr Berlusconi cost his own Christian Democratic Centre many votes; Renato Ruggiero, late of the World Trade Organisation; and Boris Biancheri, once a senior ambassador.

One change that would have been welcome on *election day*—as Italians mysteriously call it, in English—did not happen. Sundry familiar faces, not least ministers who lost their first-past-the-post constituency seats, will still be there when parliament reassembles on May 30th, thanks to the wonders of the party list and proportional representation.

But the day did bring one, unexpected novelty—alas, one that voters could have done without: the near-collapse of the electoral machinery. As one in three of all polling stations had been scrapped, and more ballot papers were added (for mayors, provincial councils and the like), voters had to spend longer in the booth—and latecomers much longer waiting to get into it. In Calabria, the last voter marked his ballot papers at four in the morning, six hours after the polls' official closing time. He is now a national celebrity.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Italy's voters and Italy's democracy

Berlusconi or Brussels

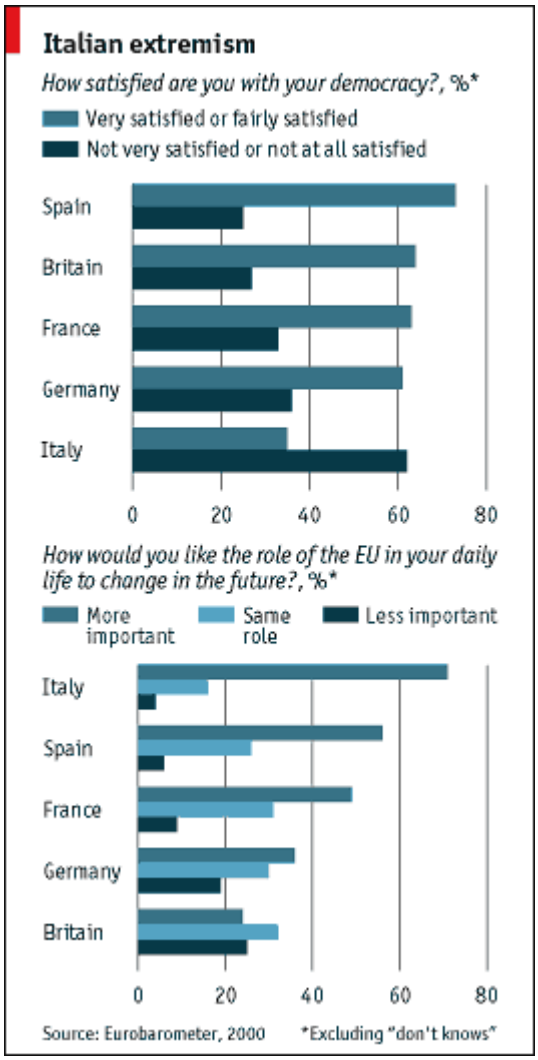
May 17th 2001
From The Economist print edition

Italians trust the EU more than their own democracy

ONE reason for Silvio Berlusconi's triumph was plain: he promised change, and Italians were fed up with, among other things, their version of democracy. The latest Eurobarometer, a pan-European poll conducted for the European Commission, shows how fed up: more so—though our chart shows only the larger countries—than people in any other of the 15 EU members.

In only two other countries, Greece and Portugal, do those unhappy with their local style of democracy outnumber those who are content. And lo, the Italians, Portuguese and Greeks, in that order, also head the list of those who want the EU to play a greater role in daily life. On average, 46% of EU citizens say they trust the European Commission. Yet 61% of Italians trust the commission—run, as it happens, by Romano Prodi, a founder of the centre-left coalition they have just cut down. More Italians also sit the commission's exam for entry to its bureaucracy than do people of any other nationality.

A fine choice of saviours: Mr Berlusconi or Brussels. The more ordinary politicians in the EU's other big countries, three of them due to go to the polls quite soon, must be grateful their voters take a more ordinary view of the Eurocracy.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Spain's Basque election

Aznar hurt, ETA clobbered

May 17th 2001 | MADRID
From The Economist print edition

The voters say no to both

HE GOT it wrong. But Spain's prime minister, Jose Maria Aznar, is not a man who gives up easily. The Basque regional election on May 13th gave him his worst political setback since he came to power in 1996, but his reaction was characteristically defiant: "Our premise will not change. We're in for the long haul."

The premise of Mr Aznar's electoral strategy was straightforward: the way to smash the Basque-separatist gunmen of ETA was to kick the non-violent Basque Nationalist Party (PNV) out of office. No luck. Mr Aznar had made the Basque region and the defeat of ETA a top priority after his re-election as prime minister last year. He had sent in his ETA-bashing interior minister, Jaime Mayor Oreja, to head the campaign. Yet even counting in the vote of the less-than-convinced Socialists (PSOE), with whom Mr Aznar's People's Party (PP) hoped to form a coalition, only 41% of the vote went this way. The PNV, with a small ally, took almost 43%—the highest share non-violent nationalism has ever won in seven elections, and that in a high (80%) turnout, which the PP had mistakenly thought would help itself.

Something has to change. The prime minister might even try listening for a moment to the regional premier, the PNV's Juan Jose Ibarretxe, whom he has not met since last June. With its ally, the PNV now has 33 seats, six more than the two won in 1998. Its claim to govern is beyond dispute. But—still five seats short of an overall majority—with whose support?

The Socialists? The two have been in coalition in the past, and the PSOE never signed up to Mr Aznar's strategy. But its regional branch, whose members, with PP ones, have borne the brunt of ETA's recent violence, this week rejected an alliance with the PNV. Some in the party's Madrid headquarters think differently, but they know that most Spaniards see the PNV as ambiguous in its attitude to ETA.

So? The PNV's most recent coalition partners were none other than Euskal Herritarrok (EH), ETA's political wing. But that was at a time, in 1998-99, when ETA had declared a ceasefire and claimed itself ready to adopt peaceful means. And here comes the biggest lesson, a welcome one, of this election. Though Mr Aznar was hurt, EH was clobbered. Its vote fell from 18% to 10%, its seats from 14 to seven. Whatever their differences, Basque voters gave a decisive no to terrorism. Mr Ibarretxe could not now accept EH as partners.

What can he do, then? The PNV's veteran leader, Xabier Arzalluz, argues that it could not reject EH support from outside a coalition. Mr Ibarretxe says he would not accept even that—but with a caveat: he would not, unless EH were to renounce violence and distance itself from ETA.

There may be far-off possibilities here. In many PNV eyes, the voting vindicated Mr Arzalluz's attempt in 1998 to bring ETA to the negotiating table (and advance what he believes in himself) by having the PNV adopt an openly separatist line. EH itself, admitting that its results were "not good", is pushing its familiar line of "sovereignty and peace". Mr Arzalluz has called for talks on the Northern Irish model, involving all parties including EH. No way, says Mr Aznar: Basques can pursue any political option through existing institutions, and any other sorts of talks would be geared towards ultimate concessions on sovereignty that are out of the question.

But even if all the Basque nationalists and separatists, on their own, could agree on a non-violent push in

that direction, they will not do so soon. Yet Mr Ibarretxe has to govern right away. In a minority, perhaps. But he would prefer something more solid and is consulting all round.

Meanwhile ETA itself has shown what it thinks of the democratic process: it exploded a hefty, though fortunately not fatal, car bomb in Madrid just before the vote, and wounded a Basque journalist with a letter bomb after it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Charlemagne

Ilir Meta

May 17th 2001
From The Economist print edition

Albania's prime minister has to lift his people out of the mire—and keep them out of regional violence

Get article background

HE MIGHT have become a champion weight-lifter. Instead, Ilir Meta chose politics—in which, as prime minister of Albania, he needs much the same qualities: muscle, persistence and an ability to pick the right moment for an all-out effort. His job is to heave his hard-pressed country out of the clutches of traffickers in drugs, weapons and illegal migrants; and, now, to resist the extremists who are trying to create an ethnic-Albanian fief in neighbouring Macedonia.

Mr Meta's ex-communist Socialist Party is hoping to win a second four-year term in the elections in late June. It will remind the voters of the way it restored order, more or less, after months of anarchy following the collapse in 1997 of a series of fraudulent pyramid savings schemes. Mr Meta himself, only 18 months in his post, will point to his personal achievements during the Kosovo war, when, as deputy prime minister, working closely with international aid organisations, he handled the influx of at least 450,000 ethnic-Albanian refugees. The solid victory that seems likely would much strengthen him against Fatos Nano, a discredited former prime minister who has hung on as party chairman and still wields considerable influence.

Starting young

Mr Meta, now 32, is one of Albania's first professional politicians. As an economics student at Tirana University, he helped launch the transition to democracy, taking a leading role in the demonstrations in 1991 that persuaded President Ramiz Alia to open up Albania's borders after almost 50 years of self-isolation and abolish the one-party system. But rather than join the newly formed Democratic Party, he shrewdly preferred to help reshape the Socialists, and set up their pro-EU youth movement.

Since his promotion to prime minister—his predecessor gave up after failing to unseat Mr Nano as party leader—Mr Meta has concentrated on improving co-operation with the western countries whose help Albania needs to build up its crumbling infrastructure. Aid from Germany has surged since his government cracked down on imports of stolen Mercedes cars. Relations have also improved with Italy and Greece, Albania's biggest investors and trading partners, and host to many Albanian migrant workers.

The $500m-odd that the migrants send home every year is one reason for the boom in trade and construction that should help the economy to grow by 7% or more this year, for the third successive year. Foreign investors are starting to return. Greek companies have acquired Albania's fast-growing mobile-phone operator and a licence to set up a second cellular network. An Italian group has leased the biggest chrome mine, and a Turkish outfit has started processing scrap metal at an elderly Chinese-built steel plant. Albania still has far to go, however. Its hopes of joining the queue of candidates for EU membership were dashed last year, when it failed to meet conditions to negotiate a stabilisation and association agreement.

The rule of law is still less than solid. Mr Meta's critics say the government's control of Albania's traditionally lawless mountain regions ends at dusk. Drug smugglers are estimated to earn as much as the migrants send home. And the glitzy apartment blocks going up in the port of Vlore indicate that shipping illegal migrants across the Adriatic is still a flourishing business. Western diplomats praise Mr Meta's efforts against crime, but say he should do more about civil-service corruption—easier said than done, when $650 a month is a junior minister's wage.

No Greater Albania for him

Other Balkan leaders think well of Mr Meta. Ethnic-Albanian rebels may battle in Macedonia, but he dismisses dreams of uniting all ethnic Albanians under a single flag. “Greater Albania is a project that doesn’t exist even in our minds,” he says. “Our priority is to leave behind our historical backwardness and start closing the gap between Albania and the rest of Europe.” Visiting Kosovo last December, he carefully avoided talking about its Albanians’ dreams of breaking away from Yugoslavia. If Mr Meta betrays a trace of resentment towards the neighbours, it is envy of Macedonia’s success in signing its EU stabilisation pact in spite of that country’s increasing instability.

This good sense may not prove a vote-winner. Some other Albanian politicians are less willing to ignore the idea of Greater Albania and worry about roads or water supplies; among them Sali Berisha, the mercurial former president from the north of the country who now leads the opposition Democratic Party. Unlike his predecessors, Mr Meta has avoided being drawn into an open feud with Mr Berisha. But as the election campaign heats up, candidates, especially in the northern and eastern districts adjoining Kosovo and the ethnic-Albanian region of Macedonia, will be tempted to bang the nationalist drum.

There are worrying reports too of guerrillas crossing into Macedonia from border areas. Extended families live—and guerrillas recruit—on both sides of this mountainous frontier. Guns for the rebels in Macedonia pass across it. Even where the Albanian government’s writ runs, which is not everywhere, its army and police, despite new equipment and training supplied by international donors, have trouble controlling the borders.

Yet, given his aims, Mr Meta—willingly enough—has to resist, as best he may, the nationalist (or merely criminal) groups and the pressures of those who go along with them. West European governments and the United States were happy to side with Kosovo’s ethnic Albanians when that meant undermining Slobodan Milosevic. With his downfall, they have changed track. They do not want Macedonia split along ethnic lines, and would aid no Albanian government working towards that. Nor would the resultant chaos encourage the EU to admit any south Balkan country, let alone one that had helped to cause it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Turkey's economy

Harsh medicine

May 17th 2001 | ANKARA
From The Economist print edition

Fresh IMF money may save the economy, at a high social cost

THANK you, IMF. On May 16th, Turkey won the Fund's signature to yet another rescue package—$8 billion, this one —to fend off hyperinflation and debt default. But it was a "last chance", said IMF officials, and the Fund went ahead only after the Turkish parliament had passed radical laws to reform the corruption-addled banking sector and to privatise debt-laden state companies, starting with the landline telecoms monopoly, Turk Telekom.

AP

Out of jobs, out of patience

The Fund's new $8 billion stand-by comes on top of some $11 billion already committed, and $5 billion drawn, under a previous anti-inflation programme, which collapsed after a financial crisis in February. The World Bank is expected to cough up a further $2 billion.

None of this springs from pure economics, nor yet disinterested goodwill. Turkey is not as vital a western ally as in cold-war days, but it still has NATO's second-largest army. It is host to American aircraft which regularly patrol northern Iraq. It is also a good friend of Israel; the two countries' armed forces collaborate. It hopes, one day, albeit distant, to join the European Union. And western banks' Turkish exposure totals some $40 billion. Their governments could hardly stand by and just watch Turkey sink.

So is it now back from the brink? Only just, says its economy minister, Kemal Dervis, a former World Bank economist recruited in March to sort out the financial mess. He has spoken of vested interests seeking to upset his ambitious structural-reform programme, and has threatened to resign if they are allowed to succeed.

If he gets his way, Mr Dervis will have revolutionised not only the way the economy is run, but the way politics has been ever since a multi-party system was introduced in 1945. When he speaks of the need to "divorce politics from the economy", what he means is stopping the country's many crooked and mediocre politicians from buying votes and influence through jobs and handouts from state banks and institutions. This vicious cycle of patronage and corruption lies at the root of Turkey's financial ills.

No wonder that other ministers in the three-party coalition led by Bulent Ecevit, the leftish veteran whose unwise words set off the crisis in February, are feeling twitchy. The transport minister, from the far-right Nationalist Action Party, fought hard against the telecoms legislation. Some in that party accuse Mr Dervis of taking orders from the IMF and the Americans. A foreign agent, say others, alluding to his mother's German blood.

Yet, according to one poll, this is the man most Turks want to see as their leader. The same survey showed that 40% of them do not trust any of the main political parties, as well they might not; and that 80% would welcome a brand-new party on the political scene. How nice, for some politicians, if Mr Dervis could be eased out now that the IMF has loosened its purse-strings. However, he has the backing of Istanbul's leading businessmen and industrialists and—at least for now—of the ever-powerful generals. And the IMF, which will pay out in stages, not all at once, would not be amused.

The real risk comes not from vested interests hostile to Mr Dervis and his reforms, but from the public reaction as the changes are rammed through and followed up. Over 500,000 jobs have been lost since February. More will surely follow. The IMF's targets require the government to rake in somehow an extra 3%, net, of GNP to bring some semblance of order to its books. Even given the turnaround that the IMF "expects" to start in the third quarter, GNP is forecast to be 3% smaller this year than last.

And then? Urban unemployment is already high. The nightmare prospect is that Turkey's farmers, about 45% of the nation, with no more state subsidies to keep them afloat, will flock to the cities, whose swollen shanty-towns are already a fertile breeding-ground for extremists, be they Islamists, Kurds or others. Mr Dervis and his IMF-inspired medicine may work, but the patient will take a beating on the way.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Pluralism in Russia

The bill's on me, says Berezovsky

May 17th 2001 | MOSCOW
From The Economist print edition

A fugitive tycoon becomes a civil libertarian—maybe

REMEMBER Boris Berezovsky? Once accused of personally undermining Russian democracy, he has just reinvented himself as a champion of civil liberties and founding father of a new opposition to President Vladimir Putin.

The tireless Mr Berezovsky, now hiding in Western Europe from a criminal investigation, is ready, he says, to share $25m among 163 Russian organisations championing causes from press freedom to women's rights. Already a television channel that he owns, TV-6, has given shelter to the journalists who left the independent NTV channel after its recent takeover by friends of the the Kremlin. Now TV-6 seems likely to become—while it can—the voice of the new opposition that Mr Berezovsky says he will form and finance.

Well indeed. Is this the former Kremlin power-broker, known mostly for political intrigues and murky business deals? It is, and when Mr Berezovsky last week called a press conference—by video-link from southern France—to name the lucky 163, he explained why: Mr Putin, whom he helped bring to power, is going back on his promises of further reform, and is squeezing Russia's still weak attempts at a plural society. Some cynics wonder.

Mr Berezovsky is amassing other people's moral capital just as he used to amass the real stuff a few years ago. Nor does he show any remorse for the unsavoury habits of his past. He cheerfully admits that when he used his shares and influence in the biggest national television channel, ORT, to bring Mr Putin to power, "the image of journalism was destroyed so that reforms could continue". And for those who may still have doubts, he avers that all his actions were "deliberate and correct".

The recipients of Mr Berezovsky's cash say the importance of their cause justifies accepting it. The museum housing the archive of the Soviet Union's most famous dissident, Andrei Sakharov, has taken $3m. His widow, Yelena Bonner, argues that oligarchs come and go, but the dissidents' legacy stays. So why not take the money to support it?

Pessimists reply that the name of Berezovsky has become a bad word in Russian. Promoters of real democracy in Russia have so far had little clout and less money, but lots of moral authority. Now they will be better off, but tagged as Berezovsky-sponsored—in a business where good name is everything.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The German economy

Sputtering, but not dying

May 17th 2001 | FRANKFURT
From The Economist print edition

The should-be motor of Europe is misfiring. A reason for other countries too to worry, but not to panic—and it could spring to life again

A YEAR ago, the German economy seemed at last to have shaken off the sluggishness of the 1990s. Exports, notably to the thriving United States, were roaring. The prospect of tax cuts cheered companies and consumers alike. Not today. As world stockmarkets fell, Frankfurt's fell as hard as any. Business confidence has waned. Industrial output and orders have dropped sharply. Unemployment has risen a little every month this year. No wonder economists have been hacking back their forecasts for GDP growth. Some Jeremiahs have even spoken of recession.

That is overdone. But last week's quarter-point cut in euro-area interest rates, to 4.5%, though helpful, will not stop the rot by itself, and another cut is not likely soon. The government has already reduced its forecast of this year's growth to 2%. On present form, even that may be too high.

The main source of trouble is the slowdown in the United States. Exports there account for only 3% of German GDP—more than in most European countries, it's true, but no big deal. But Germany also sells a lot of intermediate goods—things, such as chemicals or bearings, that are used to make other things—to countries that export to America. And as their exports slide, so do their imports from Germany. That is what is hitting German industry. Foreign orders for intermediate goods have fallen by more than 12% since the end of last year.

Failing a swift American recovery, can demand at home take up the slack? The government may help a little, allowing its budget deficit to inch up, as tax revenues droop and spending on unemployment benefit and the like stays higher than it once hoped. The big hope, though, is consumer spending, which accounts for more than half of GDP. But is that hope justified?

A cut in income tax, the first of three up to 2005, is putting extra money in people's pockets. But, with the other hand the government is taking it back again, in higher taxes on fuel and cars, costlier radio and television licences. And inflation—2.9%, the highest for seven years—is eating away what's left. Besides, there's the usual confidence effect: worried people save instead of spending, so helping to make their worries come true. Retail sales fell by 1% in the first quarter of the year.

Bad enough if this were solely Germany's problem. It is not. Poland, the Czech Republic and Austria each send over one-third of their exports to Germany; several others less, but still plenty. It is hard yet to identify a specific German effect. The global slowdown is already slowing the Netherlands and Denmark. France has enough oomph of its own, for now. But all European countries will eventually suffer, and some are suffering already. Economists at Bank Austria, that country's biggest bank, last week cut their growth forecast from 2.4% to 2%, blaming Germany's woes for about half the revision.

The figures need perspective. Slowdown is not recession: German industrial production may shrink for a few months, but the economy as a whole should keep growing. And much of the recent weakness will not last. It is far less worrying than was the prolonged torpor of the 1990s. The "motor of Europe" is indeed sputtering now, but it has been idling for years: not since 1992 has Germany grown faster than the rest of the European Union.

Oddly, the present slowdown may mark a change—for the better. The worst anyone expects for GDP growth this year is 1.5%. Desperate? No, it would match the average since the early 1990s. For a decade, one event after another—German unification, the Asian crisis, the EU's Maastricht treaty, with its budgetary constraints—has held growth back. But the basic trouble lay in the structure of the economy. Now, at last, economic reforms are being put in place. Taxes have been cut, and will be cut again. Markets for labour, capital, goods and services work better than they did. There is still a lot to be done. But the German economy is better tuned than it was. Give it a steady supply of American fuel and it could spring to life again.

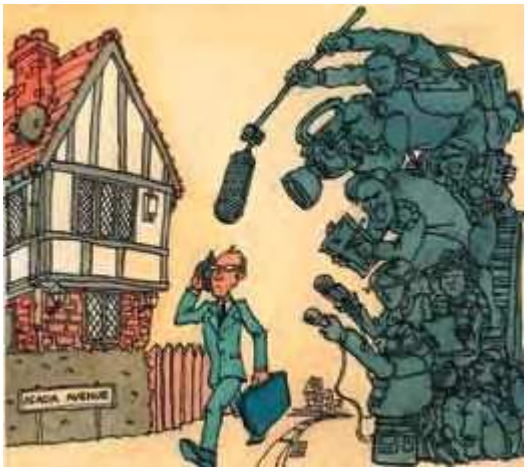
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

General election

The politics of Bedpan man

May 17th 2001 | ST ALBANS
From The Economist print edition

The result of the general election will be decided in the suburbs, where Labour's prudence has played well



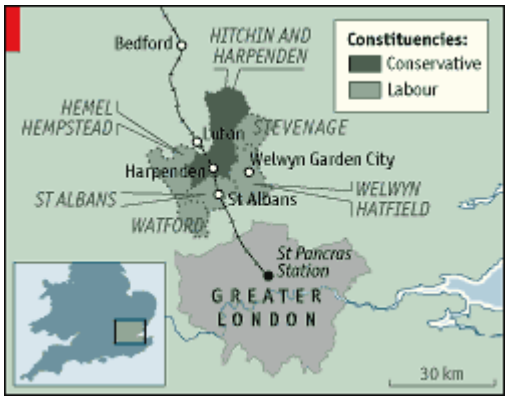
IN THE 1980s, "Basildon man", the upwardly mobile, skilled-working-class Essex male, was held responsible for keeping Margaret Thatcher in power. In the 1997 election, it was "Worcester woman", a middle-aged, middle-class lady from middle England, who was believed to have turfed out John Major's government.

In a sense, these stereotypes are silly. None of the election victories of the last 20 years was secured by winning over a particular group of voters. They were won by gaining support from voters of all kinds. But Basildon man and Worcester woman did have something important in common: they both lived in constituencies that changed hands. And whoever won them—and Tony Blair won them both in 1997—won the country.

This time round, Mr Blair's hopes of winning a comfortable second term majority depend on how many of the 90 seats most vulnerable to a swing back to the Tories he can hang on to. These seats are concentrated in the suburbs and shire towns of England. Most of them voted Labour for the first time in a generation or more in 1997. Almost three-quarters of them contain an above average proportion of owner-occupiers.

Hence the importance of the otherwise unassuming constituency of St Albans, just north of London in Hertfordshire. This is the heart of the commuter belt, on the line from Bedford to St Pancras station known not very affectionately as the "Bedpan". This is where Tony Blair kicked off Labour's campaign last week, unveiling his party's five new electoral pledges. All of Labour's top brass will be speaking here during the campaign. And this is where William Hague started his party's "Save the Pound" campaign last year.

On the face of it, St Albans should be a solid Conservative seat. Originally a small cathedral city, it has become a prosperous dormitory town. A third of the constituency's workers are managers or professionals. Some 18,000 commuters use the station every day to get into London. House prices are among the highest in the country, and 70% of people own their homes. There is virtually no unemployment. Fewer than 1% of residents are brown or black.



Yet in 1997, St Albans did the unthinkable and voted Labour in for the first time since 1945. Other Bedpan seats, such as Welwyn Hatfield, Watford, Hemel Hempstead and Stevenage, also fell to Labour. Only very posh Harpenden, just to the north of St Albans, escaped the massacre.

These seats are at the core of what is "new" about New Labour. That is why the Tories are desperate to win them back. As the young, boisterous Tory candidate, Charles Elphicke, puts it, "if we win back St Albans, it will be a vital step to winning back the trust of middle England." And if not, something really serious has happened to the Conservative vote.

It is important for the Liberal Democrats too. The party does well in local elections, but tactical voting drove them to a poor third place in 1997. St Albans will show

whether they can attract real votes in middle England, or whether they are still just a stick to beat the Tories with.

There is no great mystery why Labour now does well in seats like St Albans. This is a constituency where schoolchildren at the local state secondary school are picked up in mum's open-top Mercedes sports car. As Kerry Pollard, the MP, says, "the mortgage-rate is the pulse issue round here." He believes that by delivering low inflation and low interest rates, Gordon Brown has delivered suburbia. Voters who may have voted Labour for the first time in 1997 see no reason to change now.

St Albans illustrates why public services are central in this election. They have not coped well with the flow of people into the area. The state schools are not only among the best in the country, but also the most crowded in Hertfordshire. The doctors are over-stretched, there is a row over the lack of accident and emergency provision in the city and chaos on the railways has aggravated commuters.

So roles have been reversed. The Tories are campaigning on the inadequacies of public services, while Labour is boasting about the strong economy. The Tories began their campaign by leafleting commuters on the station platforms: this is their chosen battleground in St Albans.

But this is also unfamiliar territory. Indeed, all Mr Elphicke can say with any certainty is that voters may loathe the party less than they did last time round. "People are now prepared to listen. In 1997, they did not even open the door." But, as a local Tory schoolmaster admits, it is still "embarrassing to be seen to be a Tory". If that is true of Bedpan man, it bodes ill for the Tories in the rest of middle England.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Campaign diary

On the trail

May 17th 2001
From The Economist print edition

Prescott of the week

PA

On a bad day for ministers, when Tony Blair was barracked outside a hospital, and Jack Straw, the home secretary, was slow-handclapped by the policemen he professes to champion, John Prescott, the hapless deputy prime minister, predictably had the worst of it. On a visit to North Wales, a man threw an egg at him, and Mr Prescott, quite reasonably, punched the chap, before being wrestled on to his back.

Defector of the week (1)

In the first big celebrity endorsement of the campaign, Geri Halliwell, a former Spice Girl, appeared in a Labour advert, serving tea to pensioners. Ms Halliwell's political opinions have evolved since 1997; then in her Thatcherite phase, she said that Tony Blair's hair was all right, but "he's just not a safe pair of hands with the economy". Britney Spears has also declared for Labour.

Defector of the week (2)

Shaun Woodward, who crossed the floor to join Labour in 1999, secured his nomination in a safe northern seat, St Helens South. At least, it used to be safe. Some of the working-class constituents are sceptical about their new candidate, who is married to an heiress, has a butler and visited the constituency for the first time last week. Still, Peter Mandelson has settled into Hartlepool.

Education, education, education

William Hague visited Wales, the land of his wife's birth and the domain over which he once ruled as secretary of state. Alas, a hoped-for Tory recovery on the Celtic fringe was derailed, when the error-strewn Welsh-language version of the Conservative manifesto had to be pulped. Mr Hague stuck to English.

Confidence votes of the week

"Given the size of Labour's majority, it'd be a miracle if William could defeat them after one term." *William Hague's father, Nigel, on the Conservatives' chances*

"Bit worried. Bloody bad business with those polls." *Denis Thatcher, ditto*

"It's a tall mountain to climb, but I never lost". *Lady Thatcher, easing the pressure on the Tory leader*

Role model of the week

“We will make the trains run on time. Me and Mussolini.” *Julia Stephenson, socialite and Green Party candidate, explains her party’s aspirations*

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Poll

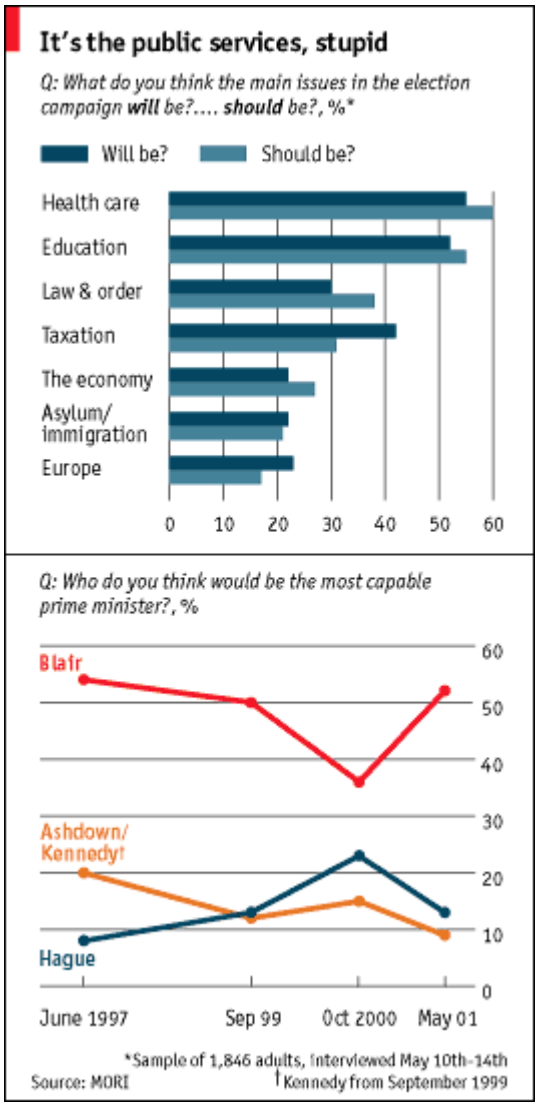
Wrong issues, wrong leader

May 17th 2001
From The Economist print edition

A poll for The Economist suggests that Labour's lead is increasing

THE Conservative Party is campaigning on the wrong issues and with the wrong leader. As a result, it is now 28 points behind Labour, four points more than at the beginning of the campaign. This is the damning verdict of a MORI poll conducted for *The Economist* at the end of the first week of campaigning.

According to our poll, 54% of people intend to vote Labour. With support for the Tories down to 26%, they could face a defeat on the scale that Labour suffered in 1983, when it got 28% of the vote.



The Tories' big idea has been tax cuts. But voters are not particularly interested. Even those who are interested are far from sure that the Conservatives have the best policy. As the chart shows, tax comes fourth in voters' priorities, behind all three of the subjects on which Labour focused in its manifesto launch on May 16th—health, education, and law and order. Even among those who think tax is important, only one in three believes the Conservatives have the best policy, putting them just three points ahead of Labour on that issue.

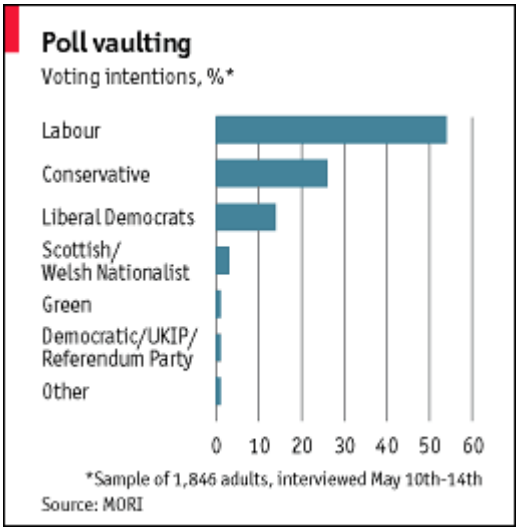
The picture is pretty much the same in the crucial marginal seats the Conservatives have to win back from Labour. Voters there also put health and education well ahead of tax. Swing voters—those who the politicians are chasing, because they say they may change their minds—care even more about health and education than does the rest of the population.

Meanwhile, William Hague's rating as "most capable leader" is, at 13%, as low now as it was in 1999, and only just above the 8% rating he got when he took over. Again, voters in marginal seats take the same view. Labour's campaign, by contrast, appears to be pressing all the right buttons. The party is almost as popular on health as it was four years ago, reversing most of its mid-term decline. On education, its position is even stronger than it was in 1997.

Most astonishing is Labour's success on two issues on which it used to be weak. It has drawn the sting from the Conservatives' attacks on law and order. A year ago it was well behind on this issue. Now it is neck and neck with the Tories. Meanwhile Tony Blair has, as he claims, persuaded voters that Labour can manage the economy. No less than half of those who consider this important put Labour ahead—up from a quarter in 1997.

Despite its huge lead, Labour could yet make further gains from the Tories. Among the one in four Tory supporters who say they might yet change their mind, as many say they could switch to Labour as say they might vote for the Lib Dems.

But most Labour supporters who might change their minds favour the Lib Dems. So perhaps Tony Blair should stop worrying about William Hague and concentrate on Charles Kennedy instead.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Self-help books

The road well trodden

May 17th 2001
From The Economist print edition

How to succeed in publishing

"SELF-HELP books are a new form of religion," according to Bridget Jones, the fictional archetype of neurotic, self-critical young women. As if to prove her point, "Bridget Jones's Guide to Life" hit British bestseller lists last month.

The guide is a parody, but Bridget has a point. More and more Brits are buying manuals like "What Men Want", "What Men Really Want", and "What Men Don't Want Women To Know". In response to soaring demand, Pearson Education, a publisher owned by Pearson, part-owner of *The Economist*, is launching an imprint dedicated to "personal development" on May 21st. The publisher has clearly got into the spirit of the business. "Momentum," says the blurb, "is a completely new publishing philosophy that revolves around one thing: you."

Self-help publishing is hardly new: the Bible is arguably the biggest-selling self-help title of all. But the modern phenomenon took off in America in 1937 with the publication of Dale Carnegie's "How To Win Friends and Influence People", which sold more than 15m copies. In 1999, $588m-worth of self-help books were sold in America. "Who Moved My Cheese", a parable about two mice and two men stuck in a maze, has been on the *New York Times* bestseller list for 77 weeks.

The British self-help market is tiny by comparison, but is growing fast. In 1998-2000, sales rose from £13.2 ($21.9) to £24.2m. It is difficult to track a market that classifies "Men are from Mars, Women are from Venus" and "How to Make Anyone Fall in Love with You" as social science. But self-help titles lead their categories. More than a million Brits have bought the "Little Book of Calm", which is Britain's top-selling "psychology" book.

Peter York, a social observer who wrote "The Sloane Ranger Handbook", believes that "self-help books are fantastically important because they tell you what America or Britain is worrying about." Everything, by the look of it: jobs, family, sex, body, soul, the lot. Most buyers, according to Rowena Webb, who has been publishing self-help books at Hodder & Stoughton for eight years, are women, although men too "are much more open now" particularly to books which might advance their careers.

According to Belinda Budge, publishing director of Thorsons, Britain's biggest self-help publisher and part of Harper Collins, sales of books about yoga and reiki, an Oriental healing system, have exploded in the past 18 months. "Our readership is very broad: even women in their seventies are taking up yoga." She expects a boom in spirituality. "There's much more openness around all these issues: tantric sex is one of our bestsellers."

Most British bestsellers are American imports. On the Hodder list, American authors outsell British authors by almost eight to one. This may be partly due to the "guru" effect. The most successful authors become international celebrities. John Gray, author of "Men Are From Mars, Women Are From Venus", "is almost a brand in his own right", says Ms Budge.

But Britain does not just slavishly follow America. The craze for pilates, an exercise routine, began in Britain. Brits seem to be more interested in pragmatic advice than psychobabble. One of the most popular British authors is Dorothy Rowe, a clinical psychiatrist who writes about depression and other problems. She is critical of the self-help industry, because she thinks that "unhappiness has become unacceptable." Her "Guide to Life" says it aims to make self-help books redundant.

Which is, presumably, what the self-help book market should do to itself. After all, if you buy a book to fix a problem, and it works, you don't need another book. Fortunately for Britain's publishers, the sales graph in America (and the state of the American psyche) suggests that that is not a serious danger.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bagehot

Promises, promises

May 17th 2001
From The Economist print edition

Two make-believe manifestos, and one plea for a chance to start all over again

SO NOW at last, with the publication of all three of the main parties' manifestos, the people of Britain know what sort of choice they have to make when they vote on June 7th. They know at last, because the 20-page manifesto says so, that the Liberal Democrats stand for "Freedom, Justice, Honesty". They know, because its 46-page manifesto declares it, that the Conservative Party thinks it is "Time for Common Sense". As for Labour—well, according to the manifesto Tony Blair unveiled this week in Birmingham, the Labour Party has "Ambitions for Britain". Indeed, it has a whole 44 pages of ambitions for Britain. Such is the scope of his vision, says the prime minister, that his party kindly requests another ten years in government.

Must a conscientious voter read all 110 pages? Here, as a service to readers, are four excuses not to.

First, manifestos seldom tell you what a party will do in office. The Labour manifesto of 1983 was an exception. One glance at its promises to save Britain from capitalism, NATO and the Common Market was enough to convince the average voter to re-elect the Conservatives. But such forthright statements of intent are rare. The manifesto that got Margaret Thatcher elected in 1979 contained almost no indication of the pro-market revolution that was to follow. The Labour manifesto of four years ago barely hinted at Mr Blair's plan to give independence to the Bank of England, as he did within a week of victory. The new one says nothing solid about when Britain will join the euro.

Second, manifestos are stuffed with long strands of what geneticists would call introns—the junk DNA that crops up in genes but carries no useful information. Each of the parties tries to explain how its values differ, and each has made them sound just the same. For all the sense any of them make, Mr Blair could just as well have added his rivals' slogans to his own and called Labour's manifesto "Time for Freedom, Justice, Honesty,Common Sense *and* Ambitions for Britain". A political oenophile who blind-tasted these documents would struggle in places to identify their provenance. "Now is the time to renew our civic and social institutions, to deliver improvements in education, health, safety, transport and the environment." Labour, Liberal Democrat or Conservative? Or just some nonsense phrases strung together at random by *The Economist*?

Third, some big issues in this election have been deliberately skipped over in the manifestos. One example is the debate, such as it is, about the size of the state. On paper, Labour and the Conservatives look close on this. The Conservatives fancy themselves tax-cutters, but their manifesto says only that they would spend £8 billion ($11.4 billion) less than Labour would by 2003, a small difference at less than 1% of GDP. In private, however, some top Conservatives wink that that £8 billion is only the thin end of a wedge that could grow much wider after 2003. That is all very fine, if you believe in rolling back the state, as the Conservatives still say they do. But they refuse to specify which areas their state would then roll back from. On the contrary, their manifesto promises to match all of Labour's spending increases on health, education and crime.

Last, two of these manifestos were written by parties which know that they will not be in government any time soon. This adds to their freedom but subtracts from their seriousness. For example, the Liberal Democrats have stuck to their longstanding promise to raise the basic rate of income tax by a penny in the pound and increase the rate for high earners. This is not only, as they claim, because they could thus raise more money for schools—they are in no position to raise any money for schools—but for branding purposes: the penny is the one thing they are known for, and they calculate that the call for higher taxes lends them a *gravitas* that other parties lack. Likewise, the Tories' pledge to renegotiate the Nice treaty looks less like a serious plan than a formula to conceal their theological schisms on Europe.

Haven't we been here once already?

In this, at least, Labour's manifesto is different. Mr Blair had a bumpy week: on the day of its launch he was scolded on television by the relative of a cancer patient, and his deputy, John Prescott, clobbered a man who had thrown an egg. All the same, the polls show that he is coasting to re-election, which makes his manifesto less of a plea for votes than a list of measures the government will soon be under pressure to live up to.

But what a familiar list. Labour promises once again that it will spread wealth more widely, but also, again, not to raise the basic or top rates of income tax. It promises, again, to give MPs a free vote on the banning of foxhunting. It says nothing new on Europe and as little as possible about further constitutional reforms. If there is a hint of radicalism, it comes from Mr Blair's plans to endow Britain with "world class" public services and, in particular, his acknowledgement that extra money is not enough to create them. For that, he says, Britain will need fundamental reform of its key public services, sometimes against the will of the people who provide them, and even if the private sector needs to play a much bigger part: "There should be no barriers, no dogma, no vested interests that stand in the way of delivering the best for our people," he says.

Stirring stuff from a Labour prime minister, most of whom tend to confuse the producer interest in the public services with the interests of consumers. Mr Blair should be applauded—and would be, on first hearing. But this has, after all, been his theme for at least three of his four years in government. Remember those valiant prime-ministerial struggles against "the forces of conservatism" and the "scars on his back" from epic struggles against obstinate public workers? It may not be only Conservatives who will conclude, with William Hague, that Mr Blair is asking not for a second term but for a second chance. What is more, he will get it.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Politics and the weather

Praying for rain

May 17th 2001
From The Economist print edition

The Conservatives' best hope is some nasty wet weather

PRIME ministers (metaphorically) and environmental activists (literally) like to believe that politicians can make the weather. Conversely, the weather is one of those unpredictable factors, like livestock epidemics and football matches, which may help to make prime ministers.

Countries such as Italy, where winter is impractical and summer is dormant, are more or less obliged to hold their elections in spring. British general elections have also clustered between March and June, because superstitious politicians are convinced that sunshine sways the result in the incumbent's favour. Patrick Dunleavy, of the London School of Economics, says that "it would be a foolish politician who called an election in February." The last prime minister to choose so inauspicious a month was Ted Heath, in 1974; he lost. By this rationale, the current campaign began well for Labour, whose intellectual sluggishness was compensated by some unusually blue skies.

The weather's effect on polling day itself is, according to electoral lore, more partisan. Bad weather keeps voters at home; embarrassed politicians have blamed rain, rather than apathy, for poor turnouts in various recent elections, such as the one for the Scottish Parliament. An academic study has shown that turnout varies in proportion to the hours of daylight on election day. So delaying the election from May until June should boost attendance.

This in turn, the argument goes, will help Tony Blair, since the sort of indifferent elector who is deterred by a shower is more likely to vote Labour if he does venture out. Labour voters are also less likely to own a car than the generally better-heeled Tories.

Some historians hold that the effect of climate on politics transcends mere elections. Fernand Braudel, a pioneering French historian, explored the ways in which the environment has shaped European history. The rise of big government in America has been attributed to the invention of air conditioning, which made Washington dangerously habitable. Nelson Polsby, of the University of California at Berkeley, argues that air conditioning transformed southern politics, as Republicans moved in when the heat became bearable.

Britain hasn't experienced the sort of climatic extremes, like drought and famine, which can bring down governments. But the mild, damp climate may help to account for the country's political docility: perpetual drizzle makes Britons disinclined to congregate outdoors, dreaming up new ideologies and plotting revolutions. Witness the damp and sparsely attended Mayday demonstration, or the Chartist meeting at Kennington of 1848, which rain helped to subdue. Benjamin Disraeli wrote that a country "subject to fogs...requires grave statesman".

Such theories, like the more specific electoral ones, can only be conjectural. Sceptical psephologists scoff at the idea of a meteorological influence on voters. The 1997 result, when a sunny day produced a low turnout and Labour landslide, suggests that the weather's impact is less than decisive. And the political shape-shifting of the last few years has confused generalisations about which party the marginal, rain-shy voter, and the poor, sodden pedestrian, are likely to favour. Nevertheless, with the polls forecasting gloom, William Hague is probably praying for rain.

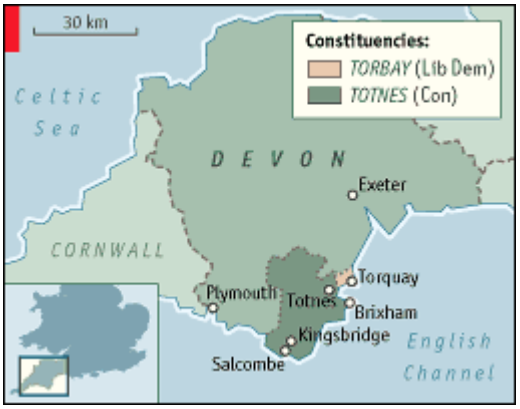
Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The West Country

Yellow in peril

May 17th 2001 | TORBAY AND TOTNES
From The Economist print edition

The West Country is one of the few areas of the country where things may be looking up for the Tories



"YOU'RE all the same. The only one who was any good was Winston Churchill," spat out an elderly voter as he hobbled to his doorstep. Canvassing in general elections is a useful exercise in humility for would-be MPs.

Torbay likes to call itself the English Riviera, but is better known as "God's waiting room". Stretching along the coast from the genteel, geriatric Torquay to busier down-market Paignton, more than a quarter of its residents are retired.

Torbay should be and always was natural Conservative territory. But at the last general election, the Liberal Democrats won by 12 votes after five recounts. Now, as the most marginal constituency in the country, it is the sort of seat that the Conservatives must win back if they are to make any showing in this election.

The West Country was a disaster area for the Tories in 1997. In Devon and Cornwall, they lost four seats to the Lib Dems and two to Labour, and were run dangerously close by the Lib Dems in a further three. But it was Torbay, one of the first seats to declare on election night, which was the real shock. Its incumbent Tory MP, Rupert Allason, a spy novelist, was so confident that he didn't bother to start campaigning until more than two weeks after the election was called.

Adrian Sanders, a local Lib Dem councillor, whose assiduous campaigning helped him overturn a 10% Tory majority, has done everything he can to dig himself in. Barely a day goes by without a story in the evening paper about his presence at some local do. His agent, Ruth Pentney, says that if the election were held tomorrow, she would be "cautiously optimistic".

But in recent elections in the area, the Lib Dems have performed dismally. In the 1999 European elections, they came fourth, even trailing the fringe anti-EU United Kingdom Independence Party (UKIP). Then they were routed in last year's council elections, losing control of Torbay council to the Conservatives, who now hold 31 out of the 36 seats.

That provides a useful base for the Conservative candidate, Christian Sweeting, a property developer and amateur magician. But he has his own problems. A late-night dispute with local youths whom he believed were vandalising his car led to him being charged with a serious firearms offence. The case was dropped this week but his opponents have used the incident to question his judgment. Mr Sweeting says defensively: "I don't think I over-reacted in any way. I have had a lot of public support in this."

Torbay seems narrowly balanced. The Lib Dems have the advantage of incumbency, but their survival depends on how many Labour supporters they can persuade to vote tactically. Labour polled nearly 8,000 votes at the last election, 15% of the total, so there is still something to squeeze. But with many voters making up their minds only on the day of the election, it is likely to be a tight finish.

The neighbouring constituency of Totnes is the mirror image of Torbay, but the joker in the pack is the same—nearly 9,000 Labour votes, 16% of the total. Here it is an incumbent Tory MP, Anthony Steen, a barrister, one of the few remaining MPs from the gentlemanly pre-Thatcher era, who is fending off a strong Lib Dem challenge. At the last election, the Conservative vote fell by 14% and the majority was reduced to only 877 votes.

The Lib Dems, only 0.6% behind, have imported a feisty new candidate, Rachel Oliver, in a determined attempt to snatch the seat. Ms Oliver, a public relations executive, is openly on the make. “The choice here”, she says, “is between a woman in her thirties at the height of her energy, confidence and resources, and a white-haired old man who is burnt out.” Mr Steen’s agent, Richard Stephens, responds civilly, “I think experience will tell in this election. The last time we suffered from a lot of our supporters not bothering to go out to vote.”

Totnes, home to artists, writers, and the Dartington festival, is an odd constituency. Though the town has a wacky reputation, with patchwork trousers and beads much in evidence on the High Street, the constituency is largely rural. There are three small towns, Salcombe and Kingsbridge to the south and Brixham, a fishing port to the west. The scenery is spectacular but incomes are low and farming is in crisis. Change, says Ms Oliver, is badly needed. “This is not just a constituency of affluent retirees. There is also a great deal of poverty,” she point outs.

Ms Oliver needs fewer than 1,000 votes to win. On the doorsteps, she gets a polite reception, but many Labour-leaning voters promise only that they will “think about” voting for her. To help get the message across, the Lib Dems have imported their top “squeeze” expert, Janet Conners, who helped Andrew George win St Ives at the last election. But even if a third of Labour voters can be persuaded to vote tactically, the Lib Dems have an uphill fight. At the last election, nearly 6,000 votes went to three anti-European candidates, including an independent Conservative. With only a UKIP candidate standing this time, some of these votes are bound to return to the Tory mainstream.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Tax and spending

War of numbers

May 17th 2001
From The Economist print edition

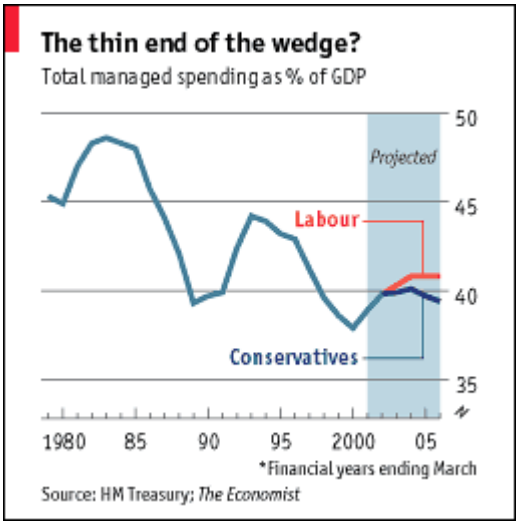
Despite the politicians' desire to avoid the question, the campaign has touched on what should be a central issue of the election—the size of the state

OLIVER LETWIN, the brainy and engaging Conservative Party spokesman on public spending, inadvertently breathed some life into the election campaign this week. After apparently talking up the prospect of Tory tax cuts from the £8 billion carefully set out in the manifesto to £20 billion, he then became uncharacteristically incommunicado. Gordon Brown made the most of the gaffe by brandishing a "wanted" poster for Mr Letwin—whose effect was dampened by a reference to his "wherabouts" [sic].

Mr Letwin's sin was to have broken the *omerta* between all three parties over their tax and spending pledges. For all their sound and fury, the politicians have entered into a pact of silence on a central feature of this election—that you need sharp eyes to find much difference between their spending plans over the next three years. This is because both the opposition parties have to all intents and purposes signed up to Gordon Brown's three-year programme which runs from April of this year to March 2004.

In his spending review last July, updated in the March budget, the chancellor committed the government to raising public expenditure by a whopping £74 billion, up from an estimated £368.3 billion in 2000-01 to £442.6 billion in 2003-04. In their manifesto, the Conservatives pledged an £8 billion reduction in the spending total for 2003-04 and stressed that they would match Labour plans for core public services such as schools, the NHS and the police. What this means is that they will be raising spending by £66 billion, only a tenth less than Labour's £74 billion, over the next three years. For their part, the Liberal Democrats have trumpeted their willingness to spend more and tax more. In practice they will raise spending by £83 billion, only a tenth more than Labour's planned increase.

Such differences so far ahead are small change. The real choice on taxation and spending has been postponed until 2004-05, even though this is quite likely to be the final year of the next parliament. Enter Mr Letwin with his "aspiration" of bigger tax cuts to come. He told the *Financial Times* that the Conservatives would continue to cut both spending and taxes by £4 billion a year, so that by 2006-07, spending would be £20 billion lower than Labour projects. Set aside the minor consideration that 2006-07 would actually be the first or second year of the parliament after next. What is striking is that even with these additional cuts, public spending under the Tories in 2005-06 would still be higher as a share of GDP than in 2000-01 after four years of Labour rule. Under Labour, it would still be lower in relation to the size of the economy than in 1996-97, the last year the Conservatives were in power.



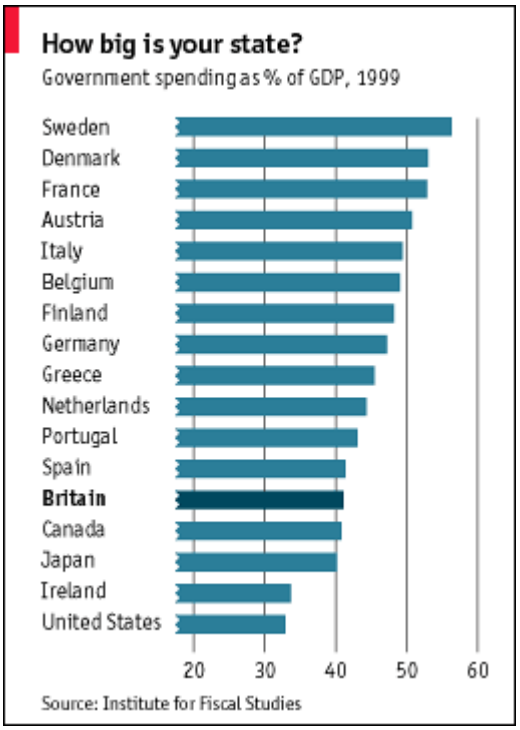
The disputes over numbers may be totemic, but they have highlighted what should be a central issue of the election: the size of the state. Clearly, the long-term direction that the Conservatives have in mind is distinct from what Labour wants to see. However, an aspiration is not enough. The Conservative package of spending cuts designed to pay for their more modest £8 billion tax cuts came in for a brisk bashing this week from the Institute for Fiscal Studies.

The IFS was dismissive about half the programme, especially the Tories' claim that they could cut the administrative costs of government and social security fraud by almost £3 billion. In schoolmasterly fashion, it concluded that a desire to cut taxes must in the long term "be matched by a willingness to identify reductions in the scale of public services".

But if the Tories are charged with a failure to spell out how they would shrink the state, Labour's thinking

is also full of holes. If Britain's public services are in such a parlous state that they require an emergency spending spree for the next three years, why stop there? After all, Britain ranks low among developed countries in terms of the size of the state. As the IFS has also pointed out, if Labour does not stop there and continues to increase public spending by almost 4% a year in real terms, then taxes will have to rise by £5 billion a year after 2003-04. Hence the Tory counter-charge about a £10 billion "black hole" in Labour's plans.

Neither party appears willing to address the central dilemma of public services in a modern economy. On the one hand, there is resistance to high taxation. On the other hand, there is ever-increasing demand for services whose funding and provision is currently dominated by the state. Human capital is more and more vital for economic success, which argues for more spending on education. As people get wealthier, they demand more spending on health. And as the population ages, spending on pensions will have to rise.



Politicians need to start rethinking the remit of government, so that the state ceases necessarily to be financier and provider and enhances its role as a facilitator, regulator and insurer of last resort. Labour is now willing to break the link between finance and provision. Tony Blair went out of his way when launching Labour's manifesto to emphasise the need for "fundamental reform in our key public services", which would involve more partnership between the public and the private sectors. However, this falls a long way short of allowing more private money into the financing of core services. For example, Labour's manifesto expressly rules out top-up tuition fees, which would allow universities to shake off the straitjacket of meagre public funding.

So far, none of the parties has presented a compelling vision of what the state should and should not be doing in a modern economy. But at least the question has been posed this week. If politicians fail to address it, they should not complain if voters answer in kind by failing to vote.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Drug prices

Small is vulnerable

May 17th 2001
From The Economist print edition

Booksellers can tell pharmacists about life after retail price maintenance

BRITAIN'S last bit of government-sanctioned price-fixing was ruled illegal on May 15th. The Restrictive Practices Court decided that makers of over-the-counter remedies could no longer set minimum retail prices for their products. The Office of Fair Trading (OFT) brought the suit because of big gaps between prices for branded and unbranded drugs. In countries without price-fixing, such as America, prices for equivalent products are lower (see table).

Prices already seem to be falling. Supermarkets such as Asda, Sainsbury and Tesco announced straight away that they would cut prices by as much as 50% for popular medicines. Small pharmacists say this is a disaster for them. They cannot compete on price with the supermarkets, who get big discounts from the manufacturers. The pharmacists say that consumers will suffer too, because those who do not live within easy reach of a big supermarket will find it hard to buy medicines.

Pricing headaches
Cost of 200mg ibuprofen tablets

Store	Brand	Price, £
Superdrug.com *(Britain)*	Nurofen	9.45 for 96
CVS.com *(US)*	Advil	5.94 for 100
Drugstore.com *(US)*	Advil	5.94 for 100
Longs.com *(US)*	Advil	5.24 for 100
Pharmacy.ca *(Canada)*	Advil	3.63 for 100

Source: Company websites

The book trade may shed some light on the pharmacists' future. Book price-fixing was ruled illegal in 1995. Some 10% of bookshops have gone under since then, according to the Booksellers' Association; though it is not clear how much of this can be attributed to price competition. Frank Fishwick, formerly of the Cranfield School of Management, points out that prices for books have actually risen by 18% since 1995; and that the shake-up in the industry caused by Internet retailing and supermarket sales makes the effects of the end of price-fixing hard to isolate.

Small pharmacies may have to change to survive. Rob Newmarch of VISTA, which supplies advice and software to publishers, points out that many small bookshops have flourished by focusing not on price but on service and atmosphere. Pharmacies might do the same.

Even if small pharmacies do disappear, that matters less to consumers than it might have a few years ago. The Internet has spawned a number of online drug sellers, with affiliated telephone services. So these days, anybody at the end of a phone can get their drug of choice.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Israel's army

A new, perhaps dangerous, freedom

May 17th 2001 | JERUSALEM
From The Economist print edition

Ariel Sharon has given Israel's army its head to take crucial fighting decisions

EPA

TRIGGER-HAPPY troops set loose? Questions about the response of Israeli soldiers facing Palestinian demonstrators are being asked, and not just by Palestinians. But suspicions about individual behaviour are less relevant than the clear fact that the army, given its head by Ariel Sharon, has made a deliberate decision to take the fight to the Palestinians, even at the risk of escalation and of deepening Israel's international problems.

Palestinian-Israeli bloodletting can be savage, on both sides. But one incident, among several horrifying ones, is revealing of the army's new attitude and tactics. This was the killing on May 14th of five junior Palestinian police guards at a quiet checkpoint on the outskirts of Bituniya, a village that lies on the edge of Palestinian-controlled Ramallah. Two of the policemen were on guard duty. Four others were inside their makeshift hut, either asleep or preparing a simple meal. Israeli forces briefly raked the area with machinegun and sniper fire. Five of the guards died instantly, and the sixth was taken to hospital in shock.

The precise circumstances are still murky. The Israeli army's first account said that the unit saw some mysterious figures "who were where they should not have been" and opened fire. Later, a government official conceded that the unit had been on a deliberate mission seeking out what the army believed was a squad from "Force 17", the Palestinian presidential guard, which the Israelis claim had been using the checkpoint as cover from which to fire on nearby Israeli positions. "We're increasingly having to operate in what is in effect an open battlefield situation, and in hostile zones any unidentified figures are automatically treated as foe with no questions asked," explained the official.

Then, on May 15th, Lieut-General Shaul Mofaz, Israel's army chief, taciturnly told a Knesset committee that "the results of the operation were not as intended". There will be a further army inquiry but, at least at this stage, General Mofaz offered no apology. "When the gloves come off, it seems that the hands become dirty very quickly," observed Chemi Shalev, a well-informed columnist, in *Maariv*.

The Israeli army, it seems, has blurred its previous distinctions between defence and attack as it redefines the conflict, seeking to wrest the initiative, and to pre-empt Palestinian tactics. This ties in with the admission by Israel's defence minister, Binyamin Ben-Eliezer, two weeks ago that he had given field commanders (even junior commanders) blanket approval in principle to carry out incursions into areas in the West Bank and Gaza that are fully under Palestinian control. They no longer need to seek government approval for such violations of Palestinian territory, said Mr Ben-Eliezer, provided that there was an imediate security need for offensive action.

Military sources confirm that the army has eased some of its stringent regulations. It is also, like many other armies at a time of war, becoming increasingly economical with the truth. A couple of blatant lies were picked up by the international press on May 15th, the date when Palestinians mourn their displacement by Israel's creation 53 years ago. It was a cruel day: four Palestinians were killed, and one Israeli woman, when her car was ambushed in revenge, said a Palestinian organisation, for the death of the five policemen. But bulletins put out by the Israeli army's press office during the day could be seen by journalists to be totally at odds with what was happening on the ground.

Some Israelis are alarmed by the army's new freedoms, seeing them as a recipe for coming disaster. They point out that an Israeli unit, pushing its way violently into a Palestinian city or town, could become embroiled in a tight military situation. Or that the results of such an operation could escalate out of control beyond anything the military commanders might have imagined.

Others worry about the lack of accountability. In the previous *intifada* in the late 1980s and early 1990s any deviant actions by Israeli troops generally led to the soldiers being called to account. But there has been precious little of that during the past seven months.

There is also little public debate about operations that might once have been damned by many Israelis as excessive or errant. This in turn is seen as a product of the prevailing cast of mind: having determined that the Palestinians were solely responsible for the failure of the peace process, Israelis hold them responsible for the ensuing conflict. This remains the consensus. Even so, bubbles of doubt are being expressed at the results of army freedom.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Sierra Leone's civil war

Peace-building or appeasement?

May 17th 2001 | MAKENI
From The Economist print edition

The rebels' half-change of heart

Get article background

A YEAR ago, the Revolutionary United Front (RUF), the main rebel grouping in Sierra Leone, was riding high. Although it had twice failed to seize the capital, Freetown, it controlled much of the rest of the country. Its leader, Foday Sankoh, had the status of vice-president. When 500 United Nations peacekeepers in rebel territory became too pushy, demanding the rebels' guns, the RUF took the soldiers hostage.

Now, Mr Sankoh languishes in prison. British troops, officially in Sierra Leone to train a new army, have helped push the rebels deep inland. The expected fragmentation of the RUF has not happened, and it still controls the diamond areas. But its atrocities are less common, according to human-rights groups. It has promised, again, to disarm, and is releasing child soldiers. The UN peacekeepers, though still rather ramshackle, are once more daring to venture into rebel-held territory.

In Makeni, a town in the centre of Sierra Leone and the scene of the UN's humiliation last year, UN troops are back in place. Few of the rebels now carry arms around town, though the American-trained Nigerian infantrymen who are there know perfectly well that they have not even begun to disarm. Nervous of violent confrontation, the UN's peace-builders are obliged to trust in the rebels' goodwill.

Nearer the diamond fields, and where new fighting has broken out along the borders with Guinea and Liberia, that goodwill is in conspicuously short supply. For instance, at Bandajuma, a town in the east, an armoured Ghanaian patrol was last week forced to turn back from a mission. It was ferrying arms to pro-government militias, claimed the RUF. The UN denied it. After all, supplying its own troops with equipment is difficult enough.

So far, the rebels have done little to disarm. Some 1,000 men have entered a UN-backed demobilisation scheme this year. But numbers are dwindling as it becomes plain that there is little money on offer. Some who have been through the programme are said to be heading straight back to the RUF.

Other rebels, however, may be serious about peace. This week, the RUF signed an agreement in Freetown promising to disarm if the pro-government militias do so too; earlier they had insisted on disarming only in tandem with the army. And in the ransacked store in Makeni's high street that serves as their headquarters, middle-ranking RUF men talk of the need to get comrades out of prison, without mentioning Mr Sankoh.

The RUF even says it is ready for elections, which may be held in September but probably not until December at the earliest. It has re-formed its political party, the RUFP, and recruited Omrie Golley, a London-trained barrister, to manage it. The rebels' leaders, who are known for chopping off limbs, may have a tough job establishing their popularity. But it is important that they should take part—even though the last time an election was held, in 1996, it provoked renewed fighting.

The diminution of violence in Sierra Leone is remarkable. But remember that many of the rebels have gone off to fight in Guinea and Liberia instead.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nigerian crime

Beware the Bakassi Boys

May 17th 2001 | ONITSHA
From The Economist print edition

Vigilantes against crime in southern Nigeria

FROM a dank building known as the White House in the heart of Onitsha's market, a group of young thugs known as the Bakassi Boys hold sway over what was once southern Nigeria's most violent city.The Bakassi, wearing the black T-shirts and red bandannas of Los Angeles rap singers, are vigilantes, brought in to clean up a dirty town.

The methods they use to do this bear little relation to even nominal concepts of justice. If a local boy is suspected by others of crime, he will be brought before the Bakassi and interrogated. If the crime is considered serious, the suspect may be subjected to ghoulish tests. One such is to hold a pair of machetes in the form of a cross in front of the face of the alleged wrong-doer. If his face is reflected in the machetes, he is deemed guilty, and put to savage death.

Though witnesses confirm their role, the Bakassi Boys deny involvement in such killings. They are, after all, financed by the governor of Anambra state, Chinwoke Mbadinuju, drive around in police vehicles he provides, and use weapons supplied by the state. One of them, however, seems to have gone too far; he was recently arrested in connection with the alleged murder of a politician.

The Bakassi were got together in their present form in 1999 by the governor of Abia state, Uzor Orji Kalu. After they had been used to clean up crime there, Mr Mbadinuju called on their services for Onitsha.They arrived last summer. Since then, according to Roman Catholic priests working in Onitsha, they have reduced the crime level, killing "many dozens" of people in the process.

At first, they were welcomed by local people fed up with the high rate of crime, and the corruption and incompetence of the police who were supposed to fight it. But now doubts are emerging. The Bakassi have spread their role into areas of social and political control: they enforce debt payment, they chastise women who stray in marriage, and they menace critics of the governor.

Other southern Christian governors have been firm in resisting pressure to hire them. But in the two states where they have been set up, the vigilantes' power is spreading. They look like becoming private armies for the governors who employ them.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com
WORLD
MIDDLE EAST & AFRICA

Senegal's new government

A win for Wade's men and women

May 17th 2001 | DAKAR
From The Economist print edition

Senegal's president forges ahead after a parliamentary triumph

Get article background

Oldest, newest networker

HAVING won a bigger parliamentary majority on April 29th than he dared imagine, Abdoulaye Wade, Senegal's president and a member of the influential Mourides brotherhood, took his newly-elected MPs to the sacred city of Touba to give thanks to his spiritual leader, Khalif Serigne Saliou Mbacke. The khalif's pre-election prayers, if not the only factor in the victory, were much appreciated.

Mr Wade may need further spiritual sustenance in the months ahead. At 75, he is one of Africa's oldest leaders and one of its newest. He took office last year, seeing off the country's veteran Socialist president, Abdou Diouf, at his fourth attempt. Hemmed in by political alliances he did not want, and handicapped by a hostile legislature, Mr Wade nevertheless adapted well to the cares of office after close to 30 years in opposition. A consummate communicator, he successfully negotiated a difficult transition period, even persuading his people to approve a new constitution by referendum.

He then dissolved parliament and called an election. Under the name of Sopi (change), a 40-party coalition led by Mr Wade's own Senegalese Democratic Party (PDS), won hands down, taking 89 of the 120 seats in the new National Assembly. The Socialist Party managed just ten. Moustapha Niasse, whom Mr Wade sacked as prime minister in March, is now the self-styled "leader of the opposition"; his party, the Alliance of Progressive Forces (AFP), won 11 seats.

Mr Wade has named a new government, mixing technocrats with PDS loyalists. Mame Madior Boye, a former justice minister who succeeded Mr Niasse as prime minister, has been reappointed, supposedly confirming the president's promise to bring women to the fore. His supporters are euphoric, talking of a new period of ambitious public works and vigorous regional diplomacy. Youth unemployment will be tackled, they say, as will environmental degradation.

Mr Wade has also promised to find a lasting settlement in Casamance, Senegal's southernmost region, where separatist guerrillas continue to fight a low- intensity war against the government. The conflict, which complicates relations with Guinea-Bissau and the Gambia, has seriously damaged what should be one of the country's most prosperous parts.

The president, an indefatigable networker, is determined to push Senegal in new directions. This month he will be visiting Mauritania and Morocco; future trips to the United States, Europe and Asia are likely. The author of several books on law and politics, Mr Wade is also a driving force behind the "Omega Plan for Africa", a hugely ambitious project that is set on making the continent more self-sufficient, breaking its dependency on the World Bank and IMF.

Critics say that Mr Wade is good on ideas, poor on management. Ex-ministers from his first year talk of abstract agendas, unrealistic projects and lack of attention to detail. Mr Niasse laments the inexperience of the PDS, arguing that "governing a country is something you can learn only on the job, it doesn't come out of a book".

But both the AFP and the Socialists can do little but watch for the time being: they have local elections in November to look forward to, but not much else. According to them, the president may now have too much power for his own good. "The man started out as a campaigner for democracy and now he has won everything," says a former Socialist minister. "We will now see what kind of democrat he really is".

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Angola's civil war

Never say never

May 17th 2001 | MAYUKWAYUKWA CAMP, ZAMBIA
From The Economist print edition

A U-turn by Angola's government?

IT IS hard to imagine a sorrier lot than the 15,000 Angolan refugees in Mayukwayukwa refugee camp in Zambia. For almost 20 years they were used by Jonas Savimbi's UNITA rebel movement, forced into carrying arms or mining diamonds. Anyone who resisted was killed. Then the government seized that part of rebel territory and the slave-workers were chased out of their homes. Many who attempted to stay were executed by government soldiers as enemies. But some of the others, before fleeing, pocketed a few of the diamonds they had been digging for UNITA. Visitors to the camp find themselves accosted by starving fugitives, dressed in rags, offering top-quality gems for sale.

It would be illegal to buy them. Since 1993, the United Nations has slapped three rounds of sanctions on UNITA, making it illegal to fly into areas held by the rebels, to sell them weapons or fuel, or buy their diamonds. The aim was to sever UNITA's supply lines, and so end the war. But, despite sanctions, UNITA managed to rearm itself during the four-year UN-sponsored "peace process" in the mid-1990s. And since the fighting restarted in 1998, sanctions have made the rebels' lives more difficult, but have certainly not crippled them.

The UN itself acknowledges that sanctions are not working. In the past two years, two expert committees have been appointed by the Security Council to examine ways of enforcing them. The experts have produced three reports. The latest, released in April, acknowledges that UNITA last year sold $100m-worth of diamonds, that this year it will sell about the same, and that, even without selling diamonds or buying arms, it will be able to continue guerrilla warfare "for a long time" because of its arms caches throughout the country.

Yet the outside world has continued to rely on sanctions to end a savage war, which in the past two years alone has made almost 3m Angolans homeless. After the failure of its peace effort, the UN not only cast UNITA in the role of villain but completely ostracised it. The Angolan government, as the lesser of two evils, was supported in its stated refusal ever to negotiate with Mr Savimbi, and in its unfounded belief that with "one last war for peace" it could annihilate the rebels within a few months.

But now, with UNITA clearly far from annihilated and under pressure from his domestic pro-peace lobby, President Jose Eduardo dos Santos may be preparing for a U-turn. In March, Mr Savimbi, in the first interview he has given since August 1999, called for a dialogue. Last month, Mr dos Santos unexpectedly agreed that the government might indeed, at some point, negotiate once more with Mr Savimbi. The rebel leader then increased the pressure in two ways: his forces launched a spectacular attack on Caxito, a city just 65km (40 miles) from the capital, Luanda. And he wrote a letter to the Roman Catholic church in Angola, confirming his desire for talks, and asking the church to mediate.

Huge stumbling-blocks remain. Both sides insist that the other stops fighting first. But there is at last a glimmer of hope for Angolans who now cannot walk to their fields without fear of stepping on a landmine, or falling into an ambush, or being labelled an enemy and executed.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Europe's magnetic attraction

May 17th 2001
From The Economist print edition

The enlargement of the European Union presents a big but necessary risk, says Gideon Rachman

TWO helicopters land on a muddy football field in north-western Bulgaria. Out clambers a small delegation from the European Union, watched by hundreds of onlookers. The visitors, led by Günter Verheugen, the commissioner in charge of EU enlargement, are swept off to meet local dignitaries. In the town hall, the mayor of Vidin, a small town near the Serbian and Romanian borders, recounts a sad tale of decline. Many local factories have closed since the fall of communism; the war in Serbia and the blockage of the Danube river have dealt further blows to the economy; unemployment is at 25%. He concludes his talk with a plea: "You represent hope for us."

Mr Verheugen holds out the promise that impoverished Bulgaria will soon be able to join the European Union, Europe's richest club. He is careful to stress that joining the EU will not be easy, and that it will not bring instant riches. But at each of his stops the softly spoken, cashmere-coated commissioner reiterates his belief that Bulgarian membership is inevitable, and that it will come sooner than many people think. Bulgaria, he says, could finish negotiations by the end of 2004.

If and when Bulgaria joins, the EU will already have admitted a number of other new members. Ahead of Bulgaria and Romania in the queue are Poland, the Czech Republic, Hungary, the three Baltic states (Estonia, Lithuania and Latvia), Slovenia, Slovakia, Cyprus and Malta. Turkey has also applied to join the Union, amidst much embarrassed coughing on the EU side, but membership for it could still be a generation away. The countries of Central and Eastern Europe are much closer to getting in.

For more than 40 years, the iron curtain divided the continent of Europe between a prosperous and free west and an impoverished and oppressed east. The European Economic Community, originally made up of six members, gradually expanded to take in almost all of the western part of the continent. More recently, it signalled its growing integration by changing its name to the European Union. When communism collapsed and the iron curtain came down in 1989, the EU pledged to embrace the countries of the east by admitting them to its club. This, it was hoped, would spread the peace, stability and prosperity enjoyed in the west to the east and "reunify" the continent. More than a decade later, the Union looks likely at last to make good on its promise.

The enlargement of the EU is intended to erase the east-west division left by the cold war, but it is also about binding the wounds remaining from the second world war. The creation in the 1950s of what became the European Union was intended, above all, to make any further wars between France and Germany unthinkable. But the second world war started in the east, with Germany's invasion of Poland. For the Germans in particular, bringing Poland "into Europe" is a historic task.

Make haste slowly

The EU is often castigated for having been slow to admit the Central Europeans. Certainly some rash promises have been made in the past. At one point Jacques Chirac, the French president, and Helmut Kohl, a former German chancellor, promised that Poland would be in the EU by 2000. The applicant countries joke grimly that they have been promised membership of the EU within five years—every year since 1990. The suspicion remains that the EU does not really want a lot of poor new members, and may yet try to wriggle out of the deal.

The applicants will certainly not be bringing a rich dowry. If all the candidates from Central and Eastern Europe were admitted, the EU's land-mass would increase by 34% and its population by 29% (to around

500m) but its GDP by only 5% at current exchange rates. The average GDP per head in the EU would fall by 16% in purchasing-power terms. By contrast, the admission of Spain, Portugal and Greece in the 1980s reduced the EU's average income by just 6% (see table 1). Laszlo Kover, the chairman of Fidesz, Hungary's main governing party, claimed last year that the EU was regretting its promises to the applicant countries "like a dog that has had a litter of nine". In Poland in particular, there is a strong feeling that mean-minded West Europeans are in danger of forgetting the moral obligations they owe to the Poles, who suffered dire privations under the Nazis and during the cold war.

The bigger, the poorer 1

Impact of successive enlargements on the EU*

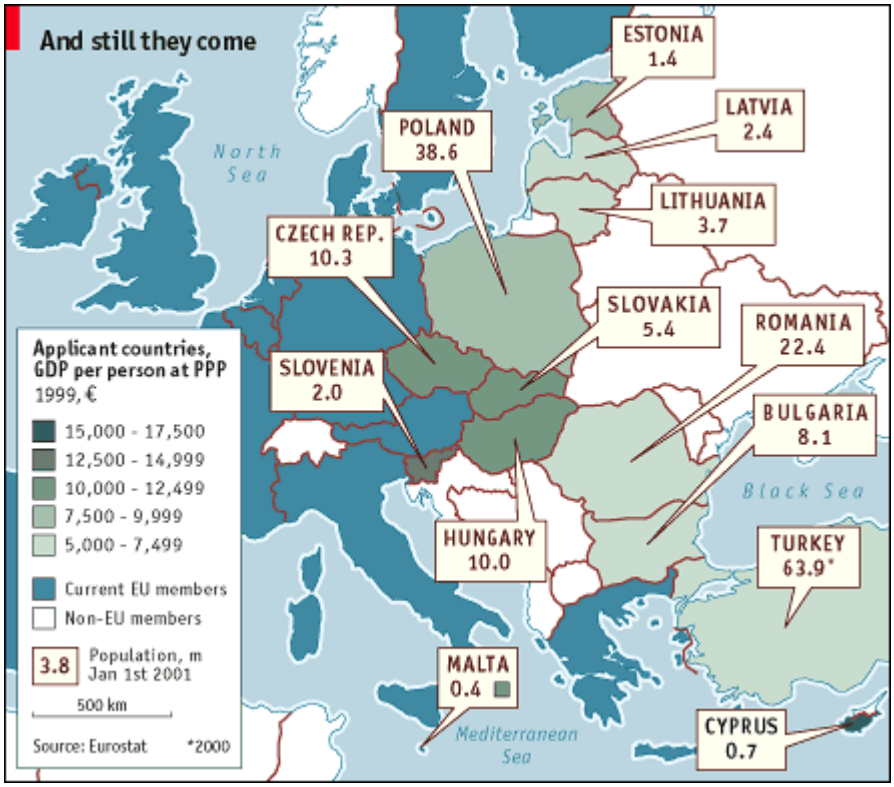
Enlargement	Increase in area, %	Increase in population, %	Increase in GDP (at PPP†), %	Change in GDP per person, %	GDP (EU 6=100)
EU 6 to EU 9, 1973	31	32	29	-3	97
EU 9 to EU 12, 1986‡	48	22	15	-6	91
EU 12 to EU 15§, 1995	43	11	8	-3	89
EU 15 to EU 26††	34	29	9	-16	75

*Based on 1995 data †Purchasing-power parity (PPP) seeks to equalise the prices of identical bundles of goods and services in each country ‡Greece joined in 1981 §Including German unification ††Excluding Malta and Turkey

Source: European Commission

But criticising the EU for its lack of generosity is in itself rather ungenerous. The Union is not just another loosely knit international organisation. Its members make laws and policies that apply everywhere within it, and transfer large amounts of money from one country to another. Citizens of any EU country have the right to live and work anywhere else within the Union, and are entitled to education and medical treatment there. Once the new members join, they will graduate from being neighbours to sharing the house.

Given the depth of the mutual obligations involved in EU membership, it is understandable that the current members are treading carefully. And caution aside, joining the EU is a vastly complicated business. All new members have to satisfy demanding criteria. Politically, democracy and the rule of law are mandatory. On the economic front, applicants need to establish a stable market economy able to withstand competition with other EU states. And then there is the time-consuming task of adopting the whole body of current EU law—the *acquis communautaire*.



Furthermore, the oft-proclaimed benefits of enlargement—reunification, stability, prosperity—are not as straightforward as they appear. Enlargement of the EU will unify some parts of Europe, but it will also open up new divisions further east. It should create stability by expanding the network of European

countries committed to democracy and co-operation, but it may also introduce new instabilities and political strains both among the current members and among the applicant countries. By encouraging trade and investment, enlargement will certainly contribute to prosperity. But by obliging the applicant countries to adopt laws that may be inappropriate for them, it could also neutralise that potential benefit.

Even so, this survey will argue that the balance of arguments remains strongly in favour of enlargement. To this end, it will consider, first, why the current EU members promised to open the door to the Central and East Europeans, and what those old hands stand to gain and lose. Next, it will examine the issue from the viewpoint of the applicant countries, and consider ways of resolving some of the most difficult issues—agriculture, financial transfers and free movement of labour. Lastly, it will look up from the mass of dossiers and negotiating positions currently littering the conference tables of Europe to ask where the process of EU enlargement will eventually stop.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Reasons of state

May 17th 2001
From The Economist print edition

Why, despite a few doubts, the current members of the European Union are keen to enlarge the club

THE growth of the European Union has coincided with an unprecedented period of peace and prosperity in Western Europe. France and Germany, which fought three devastating wars between 1870 and 1945, are now the closest of partners. Spain, Portugal and Greece have recovered from a long period of authoritarian backwardness to join the European mainstream. Historians will debate just how much credit the EU can take for this newly golden European age. Other factors—America's military role in Europe, the growth in world trade and the end of competition between imperial powers—have all played their part. But to many of its member states, it is first and foremost the European Union that can take the credit for banishing the ghosts of history.

Eastward ho

Having buried old conflicts in the west of the continent, the EU now wants to repeat the performance in the east. West European politicians make it clear that their desire to spread peace and prosperity eastwards is not solely—or even largely—motivated by altruism. Joschka Fischer, Germany's foreign minister, put the argument bluntly in a much-discussed recent speech on the future of Europe:

> Following the collapse of the Soviet empire, the EU had to open up to the east, otherwise the very idea of European integration would have undermined itself and eventually self-destructed... An EU restricted to Western Europe would forever have had to deal with a divided system in Europe: in Western Europe integration, in Eastern Europe the old system of balance of power with the permanent danger of nationalist ideologies and confrontations... In the long term this would make Europe a continent of uncertainty, and in the medium term these traditional lines of conflict would shift from Eastern Europe into the EU again. If that happened, Germany in particular would be the big loser.

Mr Fischer's compatriot, Mr Günter Verheugen, to whom it has fallen to oversee the EU's efforts to enlarge to the east, lists three main reasons why the current 15 members of the Union are keen on pursuing enlargement. The first is stability; the second is a moral obligation to help the victims of Nazism and communism; the third—mentioned almost apologetically—is the economic opportunity offered by the new markets of the east. But, he says, "The real point is the strategic point. Our experience is that the best way to project stability and democracy is through European integration."

It's been done before

It is, above all, the experience of integrating Spain, Greece and Portugal that has encouraged the current generation of EU leaders to believe Union membership can cement the transition from autocracy to democracy. Twenty years ago, it was still possible for gun-toting nationalist soldiers to charge into the Spanish parliament. A generation later, democracy in Spain is secure, and politicians from those three countries play leading roles within the EU. A Spaniard, Javier Solana, is the public face of the EU's foreign and security policy, and a Portuguese, Antonio Vitorino, is in charge of the sensitive job of creating a European-wide justice system at the European Commission.

Inevitably, though, the implications of eastward enlargement are complex and sometimes double-edged. There is a risk that as well as exporting stability, the European Union might import instability. Such instability could arise in one of four ways: in the borderlands of the new European Union; within the new members; within the current 15 members; and through the as yet unpredictable effects of enlargement on the balance of power within the Union itself.

The borderlands present an obvious new risk. Once enlargement is completed, the EU will have frontiers with some pretty rough parts of the world. Eastward enlargement will take the EU into the heart of the Balkans. Indeed, if Turkey ever joins, the EU will have borders with Iraq, Syria and Iran, among others. Thanks to Finland's membership, the Union already has a long border with Russia. That will get longer still when the Baltic states join the EU—and there is an added complication: once Lithuania and Poland become members, a Russian enclave—Kaliningrad—will lie entirely within the borders of the EU. Further south, unless the EU can broker a peace settlement in Cyprus, it may end up admitting only the Greek half of the island, thus placing itself in the middle of the long-festering conflict between Greece, which has been a member for some time, and Turkey, which is keen to join.

One plausible fear is that in helping to stabilise its new members by incorporating them into the Union, the EU may inadvertently destabilise the countries on its new borders. For example, economic ties between Poland and the Ukraine could be badly damaged by the requirement that Ukrainian visitors to Poland—on the Union's new eastern frontier—must have visas. The threat that the EU could become involved in new zones of conflict is one reason often advanced for trying to provide it with a means of taking independent military action.

New members too could cause trouble. Before the EU will even open negotiations with an applicant, it has to be satisfied that the candidate country is a functioning democracy. The idea of a member state backsliding on democracy is a nightmare for the EU, as illustrated by the mini-crisis provoked last year by the entry of the far-right Freedom Party into the Austrian government. If this sort of thing is possible in a mature democracy such as Austria, there must be a risk that it could happen in some of the new members of the Union, with shorter democratic histories and difficult economic transitions to go through.

Yet of all the potential sources of instability within an enlarged Union, the threat of political backsliding in the new eastern members is probably the smallest. Democracy seems secure in countries such as the Czech Republic, Poland and Hungary, which are likely to be early members of the Union; and countries that are less settled, most notably Romania, are further back in the queue.

There is, however, a subtler political risk than that of a return to outright autocracy in the new member countries. Because the nation-states of the European Union pool sovereignty and legislate jointly, members need to be able to trust each other. It is not enough for all of them to pass the 80,000 pages of laws and regulations known as the *acquis communautaire*. They also have to be reasonably confident that these laws and regulations will actually be monitored and enforced across the Union.

Westward bound?

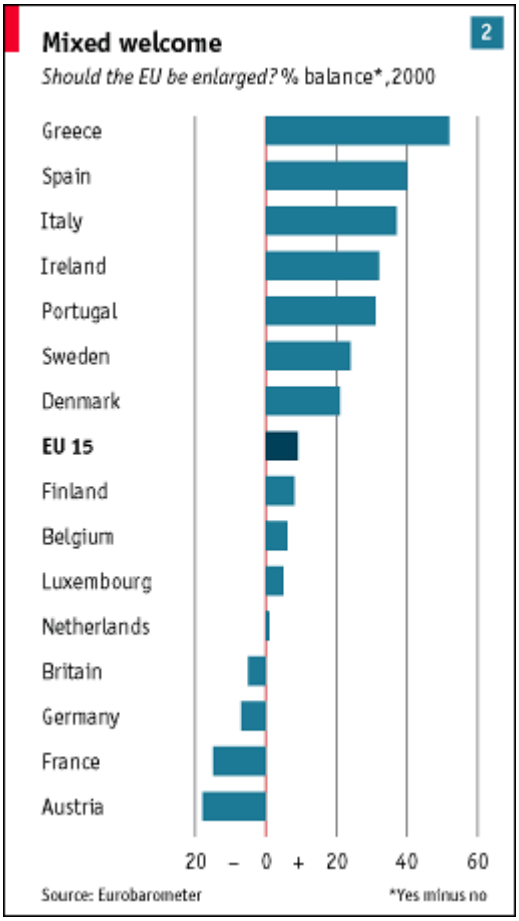
This issue is already causing tension within the present-day EU. "Northern" members routinely accuse "southern" ones of having laxer standards of administration and honesty in public life. Some current members worry that this "trust gap" will become even wider once the EU admits a batch of post-communist countries that are relatively new to the concept of an impartial and apolitical civil service. The Union has made membership contingent on the introduction of new administrative and judicial structures, but it has no mechanism for judging the quality of an administration.

Such a "trust gap" between new and old members might also undermine support for the European Union within the current member states. One reason why the current 15 have moved so cautiously over enlargement is that it is a politically sensitive issue back home, particularly in Germany and Austria, where immigration from the east is quite widely feared and support for the enlargement process is relatively low (see chart 2). Jörg Haider of Austria's Freedom Party, although now theoretically in favour of enlargement, has stirred up fear of foreigners in recent campaigns. Angelika Volle of the German Council on Foreign Relations in Berlin worries that enlargement might cause a "Haiderisation of European politics".

In response to these anxieties, the European Commission has proposed a transition period before allowing completely free movement of labour within an enlarged Union. This could last as long as seven years, although it will be reviewed after two and five years. Once again, Spain and Portugal have set an encouraging precedent. They, too, started off with a seven-year transition period on the free movement of labour, but fears of a flood of migrants pouring into France and Italy were soon found

to be misplaced, as were fears of a backlash against migrant labour.

Lurid German newspaper headlines have suggested that Germany might face 6m immigrants from the applicant countries within a decade. But a recent study by the European Integration Consortium, a grouping of West European think-tanks, estimated that the current EU-15 are likely to attract around 335,000 immigrants a year from the east once free movement of labour has been introduced. Given the labour and skills shortages in the present member countries, they should generally welcome an influx of eager new workers from the east. There may be frictions in pockets of high unemployment—such as in eastern Germany, where unemployment is close to 20%—but since immigrants in search of work will tend to go to where the jobs are, these are unlikely to be severe.



Gypsy caravan

A bigger problem may turn out to be the 6m or so Gypsies (or Roma) who currently live in Central and Eastern Europe. Most of them are grindingly poor, so they will have plenty of incentives to look for better opportunities in the west. Indeed, once complete freedom of movement has been achieved within an enlarged EU, Gypsies will enjoy the same rights as any other EU citizens, including limited access to welfare benefits in other EU countries. But the shrill reaction to the present influx of Gypsy asylum-seekers in countries such as Britain, Germany and Belgium suggests that a broader movement of Gypsies into Western Europe could cause real political problems.

For the moment, the EU is treating the issue of the Gypsies as one of minority rights and economic opportunities within the applicant countries. Mr Verheugen and his colleagues usually make a point of visiting a Roma settlement on trips to countries such as Bulgaria, Hungary and Slovakia. They hope that giving the Gypsies in Central Europe more opportunities and rights in their own countries will prevent unmanageable outflows to the west.

The final category of enlargement-related issues that worry the EU's existing members goes to the very heart of the Union. The conclusion of the Treaty of Nice last December was in many ways a triumph for the cause of enlargement. The allocation to the candidate countries of voting rights in the Council of Ministers and seats in the European Parliament suddenly made the process of enlargement seem much more real. It also removed the last formal institutional barriers to enlargement. But the acrimonious nature of the negotiations, and the difficulty of securing agreement even among only 15 members, raised the question whether an EU of as many as 27 members would be able to operate at all.

Partly for this reason, a lively debate about a future constitution for the EU is taking place alongside the enlargement negotiations. Some argue that unless the veto rights of national governments over proposed EU laws—most notably in areas such as taxation and regional policy—are curtailed further, the EU will become paralysed. Others say that "one-size-fits-all" policies may become increasingly inappropriate in an enlarged EU made up of countries of such different sizes and income levels.

All this has led to growing demands for an "avant-garde" or "inner core" of EU countries that can press ahead with deeper integration if they wish. Variants of the idea have been promoted by Mr Fischer and Jacques Delors, an influential former head of the European Commission. But in the chancelleries of Central Europe such notions are treated with some suspicion for fear they might relegate their countries to second-class membership.

Money matters

Much of the debate on how decisions are to be made comes down to money, particularly in the tricky areas of agricultural and regional policies. Between them, agricultural spending and regional aid account for around 80% of the EU's annual budget. It is widely believed that extending the present system of guaranteed prices and direct payments to farmers in Central Europe, particularly in Poland, would bankrupt the EU's common agricultural policy. Any compromise that is half-way fair to the applicant countries will mean financial sacrifices by the current member states, notably France, which has always done well out of the CAP. When it comes to regional and structural funds, it is mainly Spain, Portugal and Greece that are likely to suffer, because they are the ones that get the most subsidies at present.

The question remains whether all the current members will ultimately be willing to make the short-term sacrifices to allow enlargement to go ahead. Most decision makers in the applicant countries are confident that their German counterparts (though not necessarily the German public) are solidly behind the idea. But many fear that France, the traditional co-leader of the European Union, remains unreconciled to enlargement.

French reservations are easy to understand. For France, the main point of European integration was to prevent Germany from again dominating Europe. Now it fears that a united Germany, at the geographical heart of an enlarged European Union, will indeed emerge as the dominant economic and political force. Many French analysts assume that Central and Eastern Europe will form a natural German sphere of influence, which will make it hard for France to maintain its traditional leading role within the EU. As a senior French official working for the EU puts it: "France still has not got over the psychological shock of German unification. Preventing the rise of German power has been a French national goal almost since the time of Richelieu. Now France is searching for a new strategy, but I'm not sure it will find it."

The arrival of the applicants from the east is also hastening the ascendancy of English as the EU's major working language, which has deepened French gloom. Moreover, there are fears in Paris that countries such as Poland will turn out to be exuberantly pro-American, undermining another traditional French goal: to develop the EU as a block to counter-balance the United States. Dominique Moïsi of the Institute for International Relations in Paris says that some senior French diplomats see the applicants from the east as a "Trojan horse for the Atlantic alliance".

But the normally unflappable Mr Verheugen flushes with anger when asked if "certain countries" may yet seek to block enlargement, and dismisses the idea as "bullshit". Enlargement, he points out, is one of the few policies that all EU leaders have endorsed—unlike, say, moves towards a single currency or a common security policy.

Given the strong consensus among EU leaders that enlargement must come, it would be hard for France (or Spain, for that matter) to wreck the process, although they might be able to delay it. And even if French policymakers have misgivings about the consequences of enlargement, most seem to accept that it is both inevitable and necessary. Goran Persson, the Swedish prime minister (and the current president of the EU), leaves no room for doubt: "Any country that tried to block enlargement would bear a heavy and historic responsibility."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Joining the west

May 17th 2001
From The Economist print edition

Why the candidate countries want enlargement, warts and all

ASK Jacek Saryusz-Wolski, the head of Poland's office for EU integration, why his country wants to join the European club, and he laughs: "I haven't thought about that for ten years." Countries such as Poland, the Czech Republic and Hungary feel that they are culturally part of the west, and that it was only the tragic accident of the cold war that cut them off from the past 50 years of economic and political progress. Their leaders believe that joining the EU will anchor them in the prosperous stability of the west and allow them to turn their backs on the threat of chaos, tyranny and poverty to the east.

Why agriculture in the east is a headache

When pressed, Mr Saryusz-Wolski will cite economic, diplomatic and strategic reasons for Polish membership of the Union. But the ultimate argument—and the reason why Mr Saryusz-Wolski feels EU membership is not even worth debating—is "civilisational". As one of his colleagues puts it: "Imagine there is a river running through Europe, dividing east from west. We have to make sure we are on the right side of the river."

But there are also more concrete reasons for joining the EU, of which the economic ones hold the greatest popular appeal. Opinion surveys show that for Poles, as for other Central Europeans, the promise of prosperity of the sort the west enjoys is one of the strongest motives for pursuing membership. Poland and Hungary suffered deep recessions in the aftermath of the fall of communism, but have since seen rapid economic growth. They are hoping that full membership of the EU will keep that growth going, and eventually allow them to close the wealth gap with their western neighbours. Whether such hopes are justified will be examined in more detail in the next section.

Oddly, the new applicants also often cite European regulation (which some existing members regard as a curse) as one of the attractions of EU membership. Even if they consider parts of the *acquis communautaire* silly or inappropriate for them, many Central and East Europeans like the idea of rules imposed from Brussels to force the new members to maintain open government and a competitive business environment. They fear that without the EU to keep order, their relatively new political and economic arrangements could still be vulnerable to crony capitalism of the Russian sort. "All the intrusive regulation that most angers the Brits," says one Warsaw-based commentator, "that's exactly what we need in Poland."

Russia's long shadow also makes EU membership a security issue. Poland, the Czech Republic and Hungary have already joined NATO, and nine other countries, including the Baltic states, are in the queue. But even though NATO is a security alliance and the EU is not, the applicants feel that membership of the EU confers an extra level of security. It is simply inconceivable—isn't it?—that Russia would dare to threaten a full member of the EU.

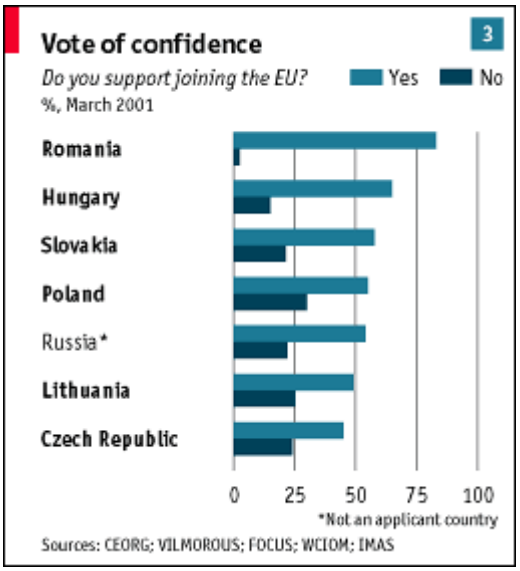
As for Germany, the other historical threat to the countries of Eastern Europe, the European Union is specifically designed to water down the power of big countries. Poland, with a population half as big as Germany's and an economy a tenth the size, will get 27 votes in the law-making Council of Ministers, against the Germans' 29. And even tiny applicants such as Estonia (population 1.4m) or Malta (population 400,000) will secure a seat at the top table for their prime ministers, who will have as much right to speak and be heard as the prime ministers of the big powers of Western Europe. Indeed, membership will be good for the candidate countries' elites all round. A well-educated Pole, Czech or Balt with a good grasp of English can expect all sorts of lucrative career opportunities in Western Europe.

So dazzled have the applicant countries been by the strategic arguments for membership that they have only just begun to notice the practical obstacles to getting in, and the difficulty of playing by the rules once inside. Some local commentators are beginning to worry that EU membership has been oversold as a panacea for all sorts of problems, and see a risk of a backlash.

The small print

Ivan Krastev of the Centre for Liberal Strategies, a Bulgarian think-tank, notes that the idea of EU membership is most popular in those countries that are furthest away from joining. Support in Poland, the Czech Republic and Hungary is solid, but not overwhelming (see chart 3), whereas in Romania it is much higher and, says Mr Krastev, "I'm sure there is 100% support in Albania." Recent visitors to Albania have indeed found the country full of fluttering EU flags, reflecting Albania's belief that its role in the Kosovo war might prove a fast track to EU membership.

In countries close to joining, the small group of people who follow EU affairs are often worried that the public remains unprepared for the realities of being a member of the Union. Tibor Navracsics, a Hungarian academic, feels that because Hungary's pro-European political parties have failed to initiate a real debate on EU membership, "The danger of the emergence of a strong Europhobic movement is quite high. The EU may come to epitomise a remote organisation demanding financial restrictions and higher taxes, yet failing to deliver improvements for ordinary people." Similar concerns are being voiced in Poland. According to a recent academic paper presented to the Polish Senate, "The absence of a debate to confront various visions of European political integration will have disastrous consequences when decisions have to be taken which the unprepared public will refuse to accept."



The Czech Republic is unusual in that some of its mainstream politicians are willing to give such anxieties a public airing. Vaclav Klaus, the leader of the opposition and a self-proclaimed Thatcherite, is openly critical of the "Brussels bureaucracy" and the "scheming federalists" who would "enforce an artificial unification of Europe." But even Mr Klaus stops well short of opposing Czech EU entry.

As negotiations have proceeded, the applicant countries have become more aware of a number of specific problems associated with membership. For example, the EU's opposition to state aid to industry has increased the pressure to close uncompetitive state enterprises. Much of this sort of change would have been necessary whether or not countries were getting ready to join the EU—but it has done little to endear the EU to workers who have lost their jobs.

Officials from applicant countries have also been startled to find that the EU is not always a force for economic liberalisation. The Estonians, who got free-market religion in the post-communist era, grumble that they are now having to raise tariffs again to fit in with EU policies. And when it comes to agriculture, the EU is still addicted to central planning. Thus the Poles, having liberalised their agriculture after the fall of communism, will have to recruit 12,000 new bureaucrats to administer EU agricultural policies.

The big issues

Agriculture is the worst headache for the applicant countries, and particularly for Poland. Whereas in the EU-15 the farm sector employs around 5% of the population, in Poland the proportion is over 20%. Agricultural plots are small and yields are low. In parts of Poland the horse and cart has yet to give way to the tractor. Polish farmers are doing pretty badly anyway, and fear that if they have to compete with the efficient industrialised farms of Western Europe they will do even worse.

The backlash against industrialised farming that has followed the BSE and foot-and-mouth epidemics has raised hopes that the increased demand for organic food will miraculously turn to the advantage of Central and Eastern Europe. Something like half the land in Bulgaria, for example, has never had chemical fertiliser put on it. Yet even the most optimistic forecasts put the share of organic produce in total EU food sales at no more than 20% a decade from now. And even if Polish smallholders can get themselves organised for the export trade, they will find that obtaining the all-important "organic" label is not just a simple matter of doing without chemicals, but involves some horribly complicated bureaucratic procedures.

Central and East European farmers will be doubly handicapped when trying to compete with their western equivalents: not only are they much more backward, but they are also likely to miss out on much of the EU's elaborate system of agricultural support known as the common agricultural policy. Under current plans, this policy will not be fully extended to the east. Romano Prodi, the head of the European Commission, explains that it would be simply too expensive.

The EU has come up with some dubious justifications for its plans. Direct payments to farmers, it says, are meant to compensate for falling agricultural prices; but eastern farmers have not been getting western prices for their produce anyway, so there is no need to compensate them. More recently, the EU has begun to move towards the idea of phasing in direct payments to the applicants, in advance of a grand reform of the CAP which would be negotiated in 2005 and kick in after the current budget runs out in 2006. The Union has also realised that many of the farmers from applicant countries would not qualify for subsidies anyway because their plots are too small, so the numbers are not as scary as they look at first sight. Even so, agriculture remains probably the most difficult issue to be settled in this current round of applications.

However, what is known in Brussels parlance as "cohesion" and "structural" funds run it a close second. In the past, less-well-off members—notably Spain, Ireland, Portugal and Greece—have received generous financial help from the EU through these funds, which dish out regional and infrastructure aid. Many motorways, bridges and buildings across southern Europe should have "Thank you, Brussels" emblazoned across them.

Yet the current wave of applicants fear that in future the EU will be markedly less generous, for two reasons. First, the next round of enlargement will greatly increase the number of poor EU citizens. One calculation for the European Commission showed that 51 of 53 regions in the ten Central European applicant countries have an average GDP per head below 75% of the EU average, which under current rules would automatically qualify them for regional aid. However, as with agriculture, the EU will probably try to find ways to massage down their entitlements. Second, the current beneficiaries of EU regional and structural hand-outs are reluctant to give up their claims in favour of their new poor cousins. For example, Spain has been careful to retain a national veto over all EU decisions on regional aid. And as fate would have it, the country that will hold the EU presidency and therefore chair all the negotiating sessions in the first half of next year—when a deal on regional and structural funds is meant to be hammered out—is Spain.

However, if the Union is too mean with the applicant countries, their current warm approval of EU membership could turn frosty. They are already beginning to discover that some of the obligations that EU membership will impose on them will be very expensive. According to the World Bank, full implementation of EU environmental law will cost the applicant countries *euro*50 billion-100 billion over the next decade. Some of the environmental changes would be desirable whether these countries join or not; others seem unneccessarily rigorous at their present state of development.

The wealth gap between present and potential members also explains why another issue is proving so emotive in the applicant countries: land. There is a deep fear across Central and Eastern Europe that rich westerners—particularly Germans—will buy up large chunks of their countries. The price of agricultural land in Poland can be as little as one-tenth that of equivalent land across the border in Germany. The same goes for houses. The problem is all the more acute because borders shifted after the second world war, and millions of ethnic-Germans were expelled from areas that are now part of Poland or the Czech Republic.

In Polish border towns such as Stubice, which lies across the river from Germany's Frankfurt on the Oder, the Poles are very keen on co-operation with their German neighbours; the two towns even have a joint university. But Krzysztof Wojciechowski, the administrative director of the university on the Polish side, points out that he knows of only two Poles in Stubice who were actually born in the town. The local community is made up of immigrants who replaced the Germans forced out after the second world war. Now many of them are nervous that when Poland joins the EU the Germans will return, either waving documents to reclaim their old homes, or simply waving wads of cash to buy up properties. Mr Wojciechowski regards such fears as needlessly alarmist, but a recent rally of the far-right NPD party on the German side of the Oder did nothing to reassure the Poles.

Because the land issue is so sensitive, the Polish government is asking for an 18-year moratorium before foreigners can buy land in Poland. The Czechs and Hungarians, for their part, are asking for 10-year transition periods. These requests will not be easy to accommodate, because free movement of capital is one of the basic principles of the internal market.

The really important things in life

But a backlash in the applicant countries could just as easily be provoked by something much more trivial. Take cigarette prices. At present the EU is trying to agree on minimal levels of duty, if only to discourage cigarette smuggling. But one EU official has calculated that if standard EU duties were applied to cigarettes in Romania, the price of a packet would go up by 600%. In a poor, hard-smoking country it is difficult to think of a better way of alienating the man in the street.

Pay levels of EU officials could also become a stumbling block. Even in the west, eurocrats are often considered pampered and overpaid, but in the east their remuneration will be seen as positively outlandish. For example, the prime minister of Hungary, one of the most prosperous applicant countries, is paid about $30,000 a year, whereas Hungary's first EU commissioner will receive about six times that. Similarly, the pay and conditions of a member of the European Parliament are seen as so enticing that long queues of would-be candidates are already forming. It all seems a recipe for alienation between a euro-connected elite and a disgruntled general population.

Yet despite the potential pitfalls, both sides are determined to press ahead. Experience in Western Europe has shown that the general rise in living standards within the European Union has been more than enough to make membership worthwhile. If EU enlargement can be seen to deliver the top priority of ordinary people in Central and Eastern Europe—better opportunities and greater prosperity—it will succeed. Strategic reasons for joining are all well and good, but the economics of enlargement remain crucial.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The wealth effect

May 17th 2001
From The Economist print edition

Joining the European Union will make the applicant countries richer, but not overnight

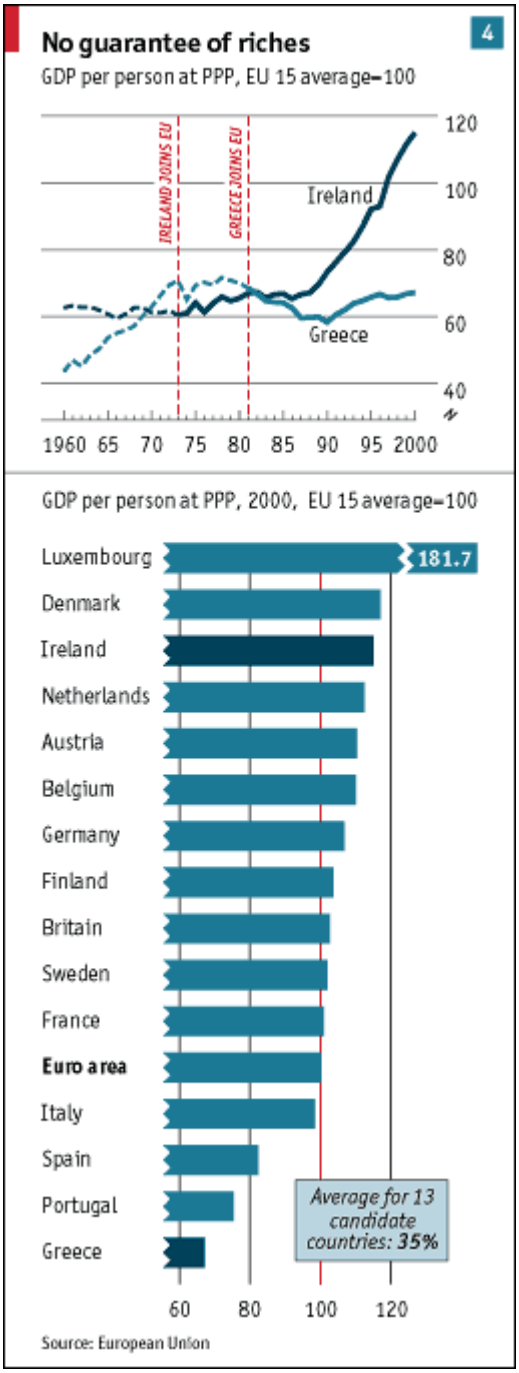
THE cities of Central and Eastern Europe are full of Irish pubs. But it is not just drinkers hunched over their pints of Guinness who are dreaming of the Emerald Isle. In foreign and finance ministries too, a surprising refrain can be heard: “We want to be like Ireland.”

Ireland is held up as a model because it has done astoundingly well since it joined the EU. In the early 1970s, just before it joined the European Economic Community (as it then was), the country’s GDP per head, measured on a purchasing-power basis, was only 61% of the EU-15 average; by 1990 it had reached 73%, and today it is 115%. In only 30 years, the Irish caught up with and then overtook the rest of the EU.

But EU membership is not a guarantee for getting rich quick. When Greece joined the EEC in 1981, it had an income level of 69% of the community average, but this has come down to about 67% now (although in absolute terms the country is much better off). Spain and Portugal, by contrast, have narrowed the gap with the EU average since joining, but are still some way from closing it (see chart 4).

So what did the Irish get right, and can others repeat the trick? One reason that the Irish have managed such rapid growth in income per head is that there are not very many of them. In a country with a population of just over 3m, high levels of foreign direct investment can have a dramatic effect. In the past decade in particular, foreign investment in Ireland has surged. In this respect, Ireland’s story resembles that of Singapore or Hong Kong, which have also managed to use a business-friendly environment to attract high levels of foreign investment, particularly in technology. Like Ireland, they have small populations that were rapidly made richer by a surge of foreign investment.

Still, there are aspects of the Irish experience that new members of the European Union could learn from. Unlike the Greeks, the Irish made good use of the EU aid that flowed into their country, ensuring that it was well-administered and went into infrastructure projects of lasting value. They also attracted many foreign investors who wanted to take advantage of the European single market by setting low levels of corporation tax and cutting bureaucracy. However, some of the things the Irish did—such as allowing some foreign investors to pay lower taxes than domestic investors—are now illegal under European law.



No golden hallo

The main reason why joining the EU will not provide the countries of Central and Eastern Europe with an economic boost of Irish proportions is blindingly simple. Unlike Ireland, Spain and Portugal, the applicant countries in the east have been given access to EU markets before they formally join the Union. Having concluded free-trade agreements with the EU in the early 1990s, they are already enjoying most of the economic benefits of membership, in particular free trade in industrial goods.

There has already been a dramatic shift in trade patterns since the demise of the iron curtain. In 1988 the communist countries of Central and Eastern Europe did around a third of their trade with the EU; by 1998 this proportion had grown to around two-thirds. That gave the EU a healthy surplus with the applicant countries, which leapt to $30 billion in 2000.

Foreign direct investment has also shot up. According to a forthcoming report from the Centre for European Reform, a think-tank, foreign direct investment in Poland in the decade to 1995 amounted to less than $1 billion, whereas in 1999 alone the figure was $7.5 billion. For all ten applicants from Central and Eastern Europe, the stock of foreign direct investment nearly doubled between 1995 and 1998, from $33 billion to $63.4 billion. Although these figures are small in global terms, they are large enough to have a significant effect on the recipient countries. A recent study carried out by the European Integration Consortium, a group of economic research institutes, showed that total annual capital inflows into the candidate countries in 1999 amounted to 6% of GDP and almost a quarter of fixed investment.

Full membership will not change the applicant countries' economic prospects immediately. Agricultural trade will be liberalised, but that is unlikely to be much help to them in the short term because their farm sectors are relatively backward and inefficient. There will be rather more EU aid coming in, but that, too, is unlikely to be a great bonanza, for the reasons outlined in the previous section. Besides, even if there were plenty of money available, under EU rules no country can receive more than the equivalent of 4% of its GDP in EU aid. This is meant to ensure that countries are able to absorb whatever EU money is coming their way, but it will also guarantee that the poorest countries will receive the least aid in absolute terms.

Thanks to the EU's internal market, however, the applicant countries will get more than duty-free access to the markets of other member states: they will also have to adopt the whole body of EU regulations and legal safeguards. This, they hope, will reassure and encourage investors, who will no longer regard them as "emerging markets" with all the implied risks of corruption and ramshackle administration. The movement of goods across frontiers should become easier, and queues at the borders should disappear.

Some businesses in the service sector will also be freed from irksome non-tariff barriers. For example, Vaclav Fischer, whose company, Fischer Travel, is one of the best-known business names in the Czech Republic, can point to a solid advantage that his agency will gain when his country joins the EU. At present all of Fischer Travel's flights to the EU have to start from the Czech Republic itself. Once inside the Union, Mr Fischer could offer tours starting in other EU countries but still keep his head office in low-cost Prague.

However, adopting EU regulations—particularly in the social and environmental fields—may prove burdensome for the new members and increase their costs. At present, average manufacturing wages in the eastern applicant countries are only 15% of average levels in the EU-15. One eminent German commentator argues that German workers, rather than opposing enlargement, should be supporting it: "Once the applicant countries are in, they become less competitive because they have to keep to our social and environmental standards. It's to our economic advantage, it's not to their advantage."

And then there is the euro. All the candidate countries have had to sign up to join the European single currency in due course. Many present members of the eurozone seem to think there will be a long gap between the Central and East Europeans joining the Union and adopting the single currency, but they are probably wrong. A recent study carried out for the Dutch government concluded that most of the applicant countries are already fairly close to meeting the demanding "Maastricht criteria" on inflation, fiscal deficits and public debt. If some applicant countries get into the EU in 2004, they should be able to join the euro as early as 2006.

The thought of sharing their currency with Poles and Estonians may make the Germans and French queasy, but it is hard to see how they can avoid it. The applicant countries, for their part, are hoping that membership of the euro will provide them with an extra economic boost. Interest rates will fall, often very sharply; and currency stability should persuade foreign investors to buy shares and bonds in the new members states without demanding such a large risk premium. This should help the newcomers to tolerate inflation above the European average without endangering the stability of their economies.

The main questions the applicants need to ask themselves about euro membership are whether their banking systems can stand it, and whether they can live with the tight fiscal controls membership imposes. Members are supposed to limit their budget deficits to 3% of GDP, which some of the newcomers might find unduly restrictive at a time when they are aiming for high growth—though it should be noted that tight fiscal control was part of the Irish success story.

Catch up, but when?

How will all these factors balance out for the candidate countries? Will there be a fresh surge of investment and trade once full membership of the EU is achieved? The recent report by the European Integration Consortium points out that trade between the applicant countries and the current members of the EU is running only around half the "normal" level of intra-EU trade, but it also says that because "the conditions of trade with the Central and East European countries already resemble those applicable to other EU members... the further impact of accession on the trade potential is likely to be fairly moderate." The consortium's report is more optimistic about the scope for future investment. On the basis of statistics on trade and investment within the EU, it suggests that: "Capital flows to the Central and East European countries may double in the wake of accession."

That would represent a considerable boost to the new members' economies. But businessmen on the ground are less sanguine. PricewaterhouseCoopers, a consultancy, recently talked to senior executives at over 40 companies with an interest in the region and concluded that: "Very few of our interviewees believe that there are significant benefits still to come from the enlargement process... this is because most, if not all, of the benefits are already available." PWC also points out that although foreign direct investment per head in the applicant countries is still well below that in the current EU members, "to a large extent this reflects differences in income per head and, hence, market potential... Relative growth of FDI will be gradual, rather than dramatic."

Gradual rather than dramatic will probably also be the watchword for general economic convergence between the present and the new members of the Union. Greece apart, the history of the EU since 1957 suggests that member states' income levels do gradually converge, although some will always be higher than others. The European Integration Consortium suggests that: "On the basis of the convergence rates observed in the EU in the post-war period, the half-life of the Central/East European-EU income gap would amount to more than 30 years." Different countries would converge at different speeds. Extrapolating from recent growth rates, Slovenia might take only ten years to catch up, whereas Romania might face a 600-year haul.

Still, the prospect of economic convergence with the wealthy west—even if it takes time—is a mighty prize to dangle before the applicant countries; all the more so because most of the countries of Central and Eastern Europe are only now emerging from the huge economic dislocations that accompanied the fall of communism. By 1998 only two of those applicant countries—Poland and Slovenia—had regained the output levels they had reached in 1989, just before the iron curtain came down. The loss of jobs in heavy industry and in state-run enterprises has left some countries with high levels of unemployment. But with some exceptions—Romania being the most notable—the applicant countries are now enjoying more rapid economic growth than the current EU-15 as a whole. If they can keep it up, they should eventually draw level with the present members. But first they need to get into the club.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

End-game

May 17th 2001
From The Economist print edition

Can enlargement really be achieved by 2004-05, as the optimists hope?

MENTION of the EU's negotiations with the candidate countries brings a derisive snort from Daniel Gros, head of the Centre for European Policy Studies, a Brussels think-tank. "What negotiations?" he asks. "They haven't even started yet."

There will be slaughter when they start talking about farming

Curiously enough, despite all the huffing and puffing about enlargement, and despite the EU's stated ambition to admit the new members in time for them to take part in the 2004 elections to the European Parliament, Mr Gros has a point. The really tough negotiations—on agriculture, structural funds and the free movement of people and capital—have not even begun.

The explanation lies in the way the accession process is structured. To be allowed through the European Union's pearly gates, a candidate has to pass a series of tests. Before negotiations of any sort can start, it has to satisfy the Union that it has met the political prerequisites of "democracy, the rule of law, human rights and... protection of minorities." Turkey has yet to meet these political criteria, so it cannot even begin talks with the EU. But 12 applicants have got as far as starting discussions with the EU. Poland, the Czech Republic, Hungary, Estonia, Slovenia and Cyprus got the go-ahead in 1997; a second group—Latvia, Lithuania, Malta, the Slovak Republic, Bulgaria and Romania—followed in 1999.

Twelve sets of bilateral negotiations between the EU and the applicant countries are now in progress. The *acquis communautaire*, the existing body of EU law, is chopped up into 31 different chapters, covering everything from agriculture to the environment and the free movement of labour. To complete the obstacle course of accession talks, a country has to "close" all 31 chapters successfully. The simplest way of doing this is to pass all the relevant EU laws. But often one side or the other will seek a temporary modification of the *acquis*, a "transition period". Most of the requests for transition periods come from the applicants (eg, Poland's request for a moratorium on the purchase of land by foreigners), but occasionally the EU makes demands of its own (eg, to delay the free movement of labour).

The negotiations are about trying to narrow the differences between the EU and an applicant country so that a chapter can be closed. The Union's strategy has been to deal with the easiest and least controversial chapters first, which has resulted in the satisfying sound of dossiers being snapped shut all over Brussels. By the end of March 2001, Cyprus, Estonia and Slovenia were ahead in the chapter-closing race, with a tally of 18 completed; Hungary had finished 17, the Poles 15 and Romania a mere six, which put it last. Mr Gros's gibe that real negotiations have not yet started is correct in the sense that most of the chapters closed so far have involved satisfying the EU that the necessary legislation in a given field has been passed. Talks on the really tough chapters—agriculture and regional aid—are not scheduled until the first half of next year. That will be the time when the process of political give-and-take will start in earnest.

Doing the easy bits first allows the EU to hold out a realistic hope that a large number of countries will have concluded negotiations by the end of next year, and will be ready to join the Union by the beginning of 2004. But it also carries the risk that if the negotiations hit trouble, the whole timetable will be set back.

One possible solution doing the rounds in Brussels would be to delay long-term reform of both agricultural and regional policy until after enlargement is completed. There is enough money in the current EU budget, which runs until 2006, to cobble together an interim solution. A grand reform of agriculture and the budget could then be tackled once the new members have got their feet under the table. But this is a risky strategy. Many current members are reluctant to sanction enlargement until its budgetary implications are nailed down. Moreover, it would further delay a comprehensive reform of

agricultural policy that is already long overdue. A recent study for the Dutch government argued that deferring reform of the CAP and regional-aid policies until after enlargement is an invitation to subsequent “severe political crises”. On the other hand, allowing enlargement to be sunk on the rocks of agricultural reform would also provoke a severe political crisis.

Who and when?

The most popular parlour game in the strange world of EU enlargement politics might be called “Who and when”. Who will be allowed into the club first, and when will it happen?

Officially, the EU maintains that this will be determined by objective criteria. Whichever countries satisfy all the criteria first will get in first, and it will happen when it happens. In reality, though, everybody knows that enlargement is ultimately a political issue, and politicians on both sides will have to strike a bargain.

Their answer to the “who” question has two popular variants, known colloquially as the “big bang” and the “little bang”. Supporters of the little bang argue that in the end the EU will decide that the big countries—particularly Poland—will not be ready to sign a deal by the end of 2002. But to demonstrate that the enlargement process is not just a gigantic tease, it will allow in some of the smaller countries that carry less economic and political weight. The smallest possible bang might take in Slovenia and Estonia. A more credible little bang would include Hungary and probably the Czech Republic.

But how plausible would it be to leave Poland out? The EU’s most recent report on Polish readiness, issued towards the end of last year, was encouraging, but the Poles have set ambitious targets for closing chapters in the first six months of this year that will not be met. They grumble that the EU has been slow to get its act together; the EU counter-grumbles that Poland is guilty of the same offence. One commentator who follows the issue closely likens Poland to “the fat boy in the middle of the class who keeps failing to hand in his homework on time”.

Even so, the political dynamics of enlargement suggest that the fat boy will just scrape through. Whatever its failings in matters of detail, it is hard to argue that Poland is in worse economic and political shape than countries such as the Czech Republic and Estonia, which currently appear to be ahead in the race. Poland also has powerful friends, above all Germany. As one Nordic ambassador to the EU puts it: “For Germany, the whole point of enlargement is Poland. It is just inconceivable that it would allow a first wave of enlargement that did not include the Poles.”

Once the Poles are in, the attractions of a really “big bang” will increase. Politicians will ask: can we really let in one Baltic state (those goody-goody Estonians) and leave out the other two? Can we really let in the Czechs and keep out the Slovaks? The answer on both counts is likely to be no. In this respect the enlargement process may come to look like the argument over who could join Europe’s single currency. The EU’s first instinct had been to adopt a strict interpretation of the Maastricht criteria, which would have limited the number of countries joining the euro, but the political difficulty of saying no proved overwhelming. Something similar is likely to happen with enlargement. The most probable outcome, therefore, is that eight to ten of the applicant countries will become members in 2004 or 2005, with only Bulgaria and Romania certain to miss out on the first wave.

The ratification game

But enlargement will not end with the announcement of the lucky winners and their entry dates. It will still have to be ratified by the parliaments of all the existing members as well as by those of all the new members. Most of the new members will also hold referendums. The outcome is not a foregone conclusion; indeed, there is potential for considerable trouble.

Take the applicant countries first. Some referendums could easily go wrong. Current opinion polls in Malta, for example, suggest that the little island may actually reject EU membership even if offered it. This may not have much geopolitical effect, but not being good enough for Malta might deal a blow to the EU’s self-esteem.

Much more serious would be rejection by one of the big countries of Central and Eastern Europe. As noted earlier, support for EU membership has tended to decline in all the applicant countries as the

prospect has become more real. In Poland and Hungary support is still a little above 50%, with substantial numbers of “don’t knows”. The chances are still that these countries will say yes to the EU. But if they felt that they had been given a bad deal in the negotiations, they might conceivably end up saying no.

However, if a deal on enlargement were to blow up, the explosion would be more likely to happen in the existing member countries. Opinion polls suggest that support for EU enlargement among western voters is subdued, and that the issue is regarded as a low priority. At the moment there is a cross-party political consensus in favour of enlargement in almost all the EU-15 countries. But what if a mainstream Austrian or German political party were to fasten on the prospect of immigrants from the east, or if a Spanish or Portuguese party were to decide that the financial sacrifices for their country were just too great?

Some of the existing members may even have referendums on enlargement, because it will involve changes to the EU’s treaties. Such referendums can easily become hostage to general feelings of hostility to the European Union. One early test of this will come on June 7th, when Ireland is due to vote on the Nice treaty, concluded last December, that adapted the EU’s institutions to allow for enlargement. Ireland is generally regarded as reliably pro-European. But the EU and all its works are not particularly popular there at the moment because of a recent reprimand from Brussels over Ireland’s budgetary policy. Opinion polls suggest that a no vote is possible. That would plunge the enlargement process into an early crisis.

Lastly, there is the issue that some observers regard as the unexploded bomb beneath the whole enlargement process: Cyprus. At present, the island is divided into a Turkish-occupied and a Greek-occupied part. The EU is negotiating only with the Greek part, but has made it clear that it is extremely reluctant to admit a divided island to membership. The hope is still that the prospect of enlargement will spur a Cyprus settlement, allowing the Union to welcome a reunited island as a member. But so far there is no sign of progress in the peace talks.

This confronts the Union with a dilemma. Admitting a divided island would enrage and possibly destabilise Turkey, an important strategic partner. That is reason enough for many existing members to oppose the idea; indeed the Dutch Parliament has passed a resolution saying that it would vote against any enlargement that included a divided Cyprus. But the Greeks are equally adamant that their bit of Cyprus must be allowed into the Union. The Greek Parliament would very likely veto any enlargement that keeps Cyprus out.

The top ranks of the EU are utterly divided on what to do. One senior EU official says that, faced with the certainty of a Greek veto of enlargement, the EU would have to let in a divided Cyprus because “we simply cannot let the whole of Central Europe be held hostage by the Cyprus question.” Across the road, another top official says it is “inconceivable” that the EU would let in a divided Cyprus.

Either way, the Cyprus issue begs the question of relations with Turkey. And that, in turn, raises the ultimate issue of EU enlargement: where will the EU stop?

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The limits of Europe

May 17th 2001
From The Economist print edition

Where will it all end?

A SUCCESSFUL conclusion of the current enlargement negotiations will almost double the number of European Union members. The Europe of 15 will become the Europe of 27. Many EU politicians and policymakers will want to call a halt there: they already harbour serious doubts about the union's ability to cope with even 12 new members. But drawing a line may prove impossible.

Thus far and no further?

The first and most pressing issue will be Turkey's application to join the Union. The Turks have been kept waiting for decades. They signed an association agreement with the EEC—widely seen as a first step on the road to membership—back in 1963, 30 long years before the Czech Republic signed a similar agreement. Turkey's formal application for membership was submitted in 1987, seven years before Poland's and Hungary's. If and when the countries of Central and Eastern Europe are admitted, the question of what to do about Turkey will become acute.

But Turkey will not be the only country hammering at the door. Almost all the Balkan countries also aspire to join the Union. The EU is encouraging them to think about membership, in the hope that the prospect will improve stability and respect for human rights. On April 9th Macedonia, still on the brink of a civil war, became the first Balkan country to sign a "stabilisation and association agreement" with the EU, holding out the prospect of eventual membership. Croatia is already in discussions about signing a similar agreement, and Albania, Bosnia and Yugoslavia are other potential candidates.

If the Balkan countries can join, what about Russia's partners in the Commonwealth of Independent States (CIS)? And come to think of it, what about Russia itself? Opinion polls show that over 50% of Russians think it would be a good idea for them to join the EU. But policymakers in the EU do not return the favour. Russia is just too big and too different, they say, and would be too difficult to absorb. The problem, though, would be to find an objective reason for keeping Russia (or any other future applicant) out should it ever decide to put in a bid for membership. The EU is meant to be a liberal organisation, based on rational, non-discriminatory principles. It cannot say (to Turkey): "We won't let you in because you are mainly Muslims," or (to Russia): "We won't let you in because we don't trust you." It has to apply objective criteria.

And if, eventually, future applicants were to satisfy the EU's political and economic requirements? Then let them in, some would say. After all, if Ukraine, or indeed Russia, had a well-established democracy and a functioning market economy, there would be no need to worry about it becoming a member. The Brussels-based Centre for European Policy Studies has already published a paper spelling out voting weights and numbers of MEPs in a future European Union of 50 members (echoing, not entirely coincidentally, the number of states in the USA).

Others shake their heads and say that the Union must find objective criteria to support what at heart everybody feels: that some countries can never become members. But what might these criteria be? Geography won't do. After all, if Turkey is deemed to be part of Europe, then surely Russia is too? Culture is equally tricky. Most EU leaders are understandably reluctant to define some sort of core European culture that goes beyond liberal democratic principles. Religion is a particularly sensitive area. Mr Verheugen at the commission argues that Turkey can hardly be excluded for being Muslim when millions of Muslims are already citizens of the EU. But religion clearly plays some part in his thinking about European-ness. Later in the conversation, when discussing the claims of Armenia and Georgia to eventual membership, he points out that their people were Christians when the West Europeans were still pagans.

For the moment, however, the question of EU membership for countries such as Armenia remains academic. It is a different matter for Turkey, whose application is already on the table. To date it has not

been allowed to press ahead with negotiations because it is not yet deemed to have satisfied the political criteria for membership. Earlier this year Turkey presented the EU with a proposed programme of political change to meet the Union's main concerns. But many in the EU reckon that it could still take decades before the Turks are able to meet crucial political demands, such as full respect for the rights of the Kurdish minority and an end to the political role of the armed forces.

It is already clear, however, that even if Turkey does eventually meet the political criteria for membership, an important faction within the EU will continue to oppose its membership. It already has a larger population than any EU country bar Germany (64m against 80m), and forecasts suggests that within a generation it could overtake Germany too. The idea that Turkey could be the most populous nation within the EU, with all the associated voting power in the Council of Ministers and the European Parliament, is too much for some. Ulrike Guerot, head of EU research at the German Council on Foreign Relations, says simply: "You cannot have a situation in which the country with the biggest weight in the EU is also the poorest, is on the geographical periphery of Europe, is not a founding member of the European Union and has no history of European integration."

American foreign-policymakers have often argued that Turkey should be allowed into the EU for strategic reasons, and Ms Guerot believes that in granting candidate status to Turkey the EU was caving in to American pressure. "These Americans have no conception of what EU membership entails," she fumes. "Yes, there is a security aspect; but if you want the EU to be a strong partner, you cannot have Turkey inside the EU, destabilising it." Hers is not a lone voice. Helmut Schmidt, a former German chancellor in a Social Democrat-led government, and Edmund Stoiber, one of the leading figures on the German right, have expressed similar reservations recently.

The Turks are already angry about the EU's plans to form a European defence arm that would include Greece but not Turkey. They are threatening to use their leverage within NATO to prevent the proposed EU force from being given automatic access to NATO assets. But Turkish anger about the EU's military plans would be as nothing compared with the fury that would be provoked by an EU decision to admit the Greek half of Cyprus to membership. If at the same time the Turks were to conclude that the EU was giving them the runaround over enlargement, things could get nasty. The pro-western camp in Turkey has consistently argued that EU membership is essential to the country's well-being. If relations with Europe go sour, other voices—for example, those of militant nationalists and Islamic fundamentalists—might get more of a hearing.

The whole Turkish dilemma is an example of how the EU's efforts to bring stability to the countries inside an enlarged Union risk destabilising the countries that will find themselves left out. Nor is Turkey the only one. The outlook for Ukraine, for example, could go from bad to worse if the country's economic and political ties with Poland were to be weakened by new Polish visa requirements and stronger border controls.

And what of the Russians? It is certainly conceivable that EU enlargement could reactivate strategic rivalry with the former superpower. For the moment, however, Russia seems oddly relaxed about it. The Putin government has made it clear that it opposes the extension of NATO to the Baltic states, but is in favour of their prospective EU membership. Russian officials have even whispered that they regard the EU as the best safeguard for the rights of Russian minorities in the Baltic states.

But there is no guarantee that the Russians will remain so relaxed about enlargement. The Kaliningrad enclave (a bit of Russia entirely surrounded by what could become EU territory) offers an obvious potential flashpoint. More generally, whereas diplomats in the EU may talk of creating new forms of governance and international order, the Russians take a traditional "realist" approach to foreign policy. If an enlarged EU were to develop a genuine defence arm, a common foreign policy worthy of the name and a more integrated political structure, a "realist" might regard that as a threat.

Both the Turkish and the Russian questions suggest that the EU now needs to think about developing a foreign policy for countries that may remain outside the Union. Christoph Bertram, director of the Stiftung Wissenschaft und Politik, a Berlin-based think-tank, argues that the EU has developed only one foreign-policy tool, the offer of enlargement. "It has proved a really excellent way of persuading countries to behave in the ways that you want," he says. "But sooner or later the EU has to be able to draw a line and work out new forms of relationships with countries that are not going to join the Union."

With Russia, that could involve a free-trade agreement, as well as the development of close co-operation and consultation on a range of subjects, from environmental clean-up to the fight against crime. Turkey already has a free-trade deal with the European Union and may yet join the EU itself, but if not, the EU

will have to come up with new and imaginative ways to maintain a good relationship with the country. That might involve allowing the Turks access to some EU institutions, such as the defence arm, as well as a built-in right of consultation over any EU legislation that may affect them.

The most important questions posed by enlargement are about stability. How will an enlarged EU maintain internal stability in its institutions and external stability in its relations with the outside world? The questions seem different, but the answers may be connected.

For years, debates about the future of the EU have revolved around the choice between widening and deepening. Widening (meaning enlargement) has often been advocated by those who feared deepening (meaning a move towards an ever closer federal union), in the belief that a larger union would also be a looser one. For the same reason, many integrationists have feared enlargement. As widening has drawn nearer, however, the federalists have changed their argument. They are now saying that closer union is needed to ensure that an enlarged EU can still work. If there are too many national vetoes, they suggest, the EU will be unable to take decisions. In a variant of this argument, some of them appeal for a closer union restricted to an inner core of members.

But neither camp offers a real solution to the internal dilemmas posed by enlargement. A tighter federal union that attempted to impose more and more common rules on 27 countries at different stages of development, each with its own national traditions, would almost inevitably create a backlash. Before long, an empire run from Brussels would be having to quash rebellions in the provinces. The idea of an inner core at least recognises that different countries want and need different things from the EU. But defining the inner core will be difficult. Some in Brussels reckon that membership of the single currency will come to define the difference between “inner” and “outer” members of the club. But, as noted earlier, the new Central and East European members may join the euro sooner than expected; and an inner core of 16 or 17 countries would still be very hard to manage.

Fortunately, a better solution seems to be emerging of its own accord. The EU is gradually turning into a series of overlapping clubs. Some rules, in particular those governing the internal market—which is still the EU’s most important feature—will have to be adopted by all members. But membership of other clubs will be optional. For example, some countries, such as Britain, may choose to play a leading role in foreign policy and defence, but stay out of monetary union. Others may stay clear of tighter defence co-operation, but go along with closer co-operation on taxation or internal policing. Such flexibility should allow the new member states from Central and Eastern Europe to choose the type of EU membership that meets their needs and allows them room to breathe.

Less can be more

Advocates of a federal arrangement will complain that an EU of overlapping clubs will lack coherence, and will find it hard to act as a powerful force on the world stage. But that may be all to the good, because a looser, less coherent EU is more likely to be regarded as a force for peace and stability around the world. Any nation-state seeking to enlarge its territory in the way that the European Union is doing would long since have been accused of imperialism and made enemies for itself. The remarkable thing about the current round of EU enlargement is how little opposition it has aroused in the outside world. Indeed, most of the EU’s potential strategic rivals are in favour of enlargement, because they recognise that whereas the European Union has played an important role in creating peace and prosperity, it looks unlikely ever to develop a nation-state’s ability to project power.

Ultimately, the enlargement of the EU is about preserving and enhancing stability across Europe. It can achieve that aim, but only if it recognises that an enlarged European Union should not aspire to be either a superpower or a superstate.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Offer to readers

May 17th 2001
From The Economist print edition

Reprints

Reprints are available should you wish to order extra copies of the survey. Please send your request to the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

North America:

Rights and Syndication Department
111 West 57th Street
New York
NY 10019
USA

Tel: +1 212 541 0532
Fax: +1 212 641 9808
E-mail:usrights@economist.com

Corporate offers and customised reprints

For corporate reprint orders of 500 or more and customisation options, please contact the Rights and Syndication Department in the relevant region:

World-wide (excluding North America):

Rights and Syndication Department
26 Red Lion Square
London
WC1R 4HQ
United Kingdom

Tel: +44 (0)20 7576 8000
Fax: +44 (0)20 7576 8492
E-mail:rights@economist.com

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

E-strategy Brief: General Electric

While Welch waited

May 17th 2001
From The Economist print edition

This week we launch a series of case studies of how big established companies are developing their e-business strategies. We begin with a look at how the biggest of them all, General Electric, almost missed the boat

Get article background

THE razzmatazz that once surrounded business-to-business (B2B) e-commerce has vanished, leaving a trail of dead dotcoms. That does not mean an end to the changes that new information and communications technologies are bringing to companies. But from now on, the transformation will occur mainly in established companies, which will continue their quiet search for new electronic ways to carry out familiar tasks.

The coming of the Internet, with its associated technologies, is changing both how companies deal with their suppliers and customers, and how they organise work. Some of these shifts will be profound; others are, for now, mere extensions of the proprietary networks that many big firms were already using. The case studies that we will run over the next few weeks will look at the progress of this revolution in America, Europe, Japan and emerging economies.

One of the companies farthest along the track is General Electric. This old-economy icon now buys and sells more through its private online marketplaces—an estimated $20 billion this year alone—than is traded in all the independent B2B marketplaces together. Management books celebrate the e-business epiphany of its boss, Jack Welch, as proof that even elephants can dance.

Yet, for most of the late 1990s, GE seemed to have blown a spectacular e-business opportunity. When the Internet wave hit, it was one of the world's biggest industrial buyers, with one of its biggest electronic buying networks. In 1997 its GE Information Services (GEIS) division was practically the only B2B game in town, albeit based on pre-Internet technologies.

But GEIS faded mysteriously from sight just as such B2B companies as Ariba and Commerce One began to produce fashionable software for electronic commerce. Although GEIS executives knew that they stood on the verge of something big, they were unable to do much about it until it was almost too late.

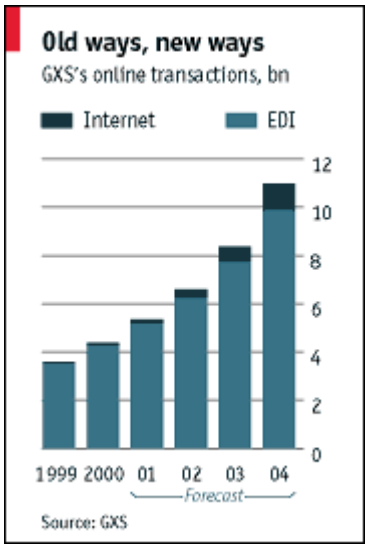
The reason was a bad case of conglomeritis. GE, the world's largest company, offers vast opportunities to use technology inventively. But its obsession with earnings growth means that it suffers from an inherent conservatism: unprofitable new ventures must win extraordinary executive and board support to go ahead.

In such a culture, it was hard to win support for a new B2B business. Keeping up with the dotcom start-ups would mean spending as profligately as they had, but without the freedom that came, in those golden days, from investors' tolerance of big losses. "We wanted to do some of what Ariba and Commerce One do, but we couldn't do it at the cost of hundreds of millions of dollars of losses," says Harvey Seegers, then GEIS's boss and now in charge of the main part of GE's e-commerce activities. GEIS bosses found it hard to get a green light from headquarters. While they waited, their "first-mover" advantage withered.

The main obstacle was the prospect of cannibalising a profitable proprietary data business: GEIS itself. From the early 1980s until the mid-1990s, e-business referred not to the Internet but to electronic data interchange (EDI), a way of exchanging formatted purchase orders and other documents electronically. EDI transactions tend to be carried over private, secure networks or leased lines, usually run by third-

party service providers (see chart).

GEIS was the biggest of these. Its data centre in Rockville, Maryland boasted a NASA-like command centre run by former military technicians still sporting crew cuts and smartly addressing supervisors as “sir”. It served 100,000 companies that collectively process more than a billion transactions a year.



This offered GE a vision of the future: more and more companies doing business with each other electronically as they automated their internal processes. The natural extension of the “enterprise resource planning” movement led by SAP, a German software company, was connecting one enterprise to another. This laid the groundwork for widespread, automated machine-to-machine transactions between companies.

Enter the Internet

But at the same time the Internet was exploding. GEIS at first saw its potential mostly as a cheap on-ramp to EDI networks for small and medium-sized firms that did not want a full EDI connection. Smaller suppliers often had to be dragged reluctantly on to larger firms’ EDI networks: for the minnows, the costs often outweighed the savings. Perhaps the Internet could help there, replacing expensive private networks with cheaper public ones. So GEIS offered a service that would accept EDI forms submitted via a website and transmit them on its own proprietary network to their destination, one of GEIS’s larger clients.

But that was as far as it went. For all the Internet’s consumer appeal, GEIS reasoned, the business world is far more conservative. For more than two decades, EDI had been the only commonly agreed standard with which to conduct business-to-business transactions. It would not be overturned easily.

Yet EDI has many flaws. In essence it is nothing more than a machine-readable e-mail message with strict rules about what to say. It is not interactive, and it operates, like all e-mail, in an asynchronous fashion, with long delays between call and response.

Thus, Wal-Mart’s ordering system might use EDI to send a purchase order to a supplier in the morning; once the supplier accepted the order it might direct its computers to send a confirmation back. Similar formatted messages might travel back and forth as the order is completed, shipped and received. EDI saves companies money, mostly by taking people and errors out of the equation, but it does not fundamentally change the way business is done or who it is done with.

That changed when the Internet came along. B2B exchanges did more than simply take existing relationships and transactions and turn them into digital form: they offered the potential for new relationships and new sorts of transactions, from auctions to direct sales without middlemen and brokers. Between 1995 and 2000, more than 700 such exchanges were founded. Some were independent marketplaces and some were run by big buyers or sellers.

Most of those have since disappeared. Yet B2B continues to grow today, although companies now tend to work with their own suppliers in private marketplaces rather than in independent exchanges. Indeed, many of the virtues of GEIS’s model—and especially its focus on improving existing business relationships, rather than reinventing them—are now, ironically, back in vogue.

Fomenting revolution

A year and a half ago, though, that was not the prevailing wisdom. As B2B dotcom start-ups were going public at multi-billion-dollar valuations, GEIS was starting to have doubts about its continuing focus on traditional EDI. Fears of the Y2K computer bug had distracted it for years, as it spent heavily to avoid trouble. Its customers—mostly larger, established industrial firms—were equally distracted.

Mr Seegers had joined GEIS in 1996. Within the company, a mainframe culture dominated, with an emphasis on white-shirted professionalism and reliability; beyond it, the growth of the Internet was in full spate. Mr Seegers, a former marine, was trained to handle conflict; yet this was a case of two worlds that preferred not to acknowledge each other's existence at all.

GEIS was a small division by GE standards, not even a line item in its annual reports—although its concentration on EDI meant that it certainly satisfied Mr Welch's decree that all divisions must be number one or two in their market. Mr Seegers now began to agitate for a larger role for GEIS. It took Mr Welch's e-business awakening to get it.

That moment has, like most big shifts in GE, taken on an unduly heroic sheen. It was, after all, in early 1999, a time when it was impossible to ignore Internet hype; Mr Welch was hardly a brave pioneer. But it is not easy to turn around the world's biggest firm, even for the most commanding of bosses.

In fact, there had been something of an e-business movement already brewing in GE, from the bottom up and in just a few isolated spots. As early as 1994, GE Plastics, one of the conglomerate's divisions, had a website with some basic information. By 1997, its Polymerland distribution operations had become the first GE unit to allow customers to place online orders. GEIS was also operating a partly web-based service called the Trading Partner Network, which simplified and automated the bid and procurement process for other divisions, led by GE Lighting.

But until 1999, when Mr Welch, after a Christmas watching his family shop online, famously told GE that e-business would be every division's "priority one, two, three and four", progress was slow. Buying from suppliers online was one thing, but selling to customers online risked putting GE's sales force out of business. Big Internet investments risked hurting each division's bottom line, against which bosses are mainly measured. And GEIS, the one division that could have pushed the hardest, was fussing over Y2K.

By the time Y2K had passed, Mr Welch had devised "destroyyourbusiness.com", encouraging each division to reinvent itself before somebody else did. Mr Seegers proposed splitting up GEIS: rather than trying to alter the mainframe culture that ran the EDI networks, he suggested spinning off a more entrepreneurial group to pursue Internet marketplaces. An hour and a half later, Mr Welch said, "Go for it."

So, in March 2000, GEIS became GE Global eXchange Services (GXS), a software and marketplace builder, and GE Systems Services, an EDI network provider. Tellingly, Mr Seegers chose to run GXS, the smaller of the two by assets, but the one with fewer legacy obligations that would hamper innovation.

The culture clash

Today, all of GE's big divisions run their own web marketplaces, both for internal and external use. Three initiatives—"e-buy"; "e-sell"; and "e-make"—are digitising the main functions of running the conglomerate, saving money, reaching customers faster and using Internet technology to extend the focus on quality that was the driving-force of Mr Welch's previous passion, six-sigma manufacturing.

The greatest hurdle has been not technology but culture. Sales staff, worried that they might be destroying their jobs, had to be offered bonuses for helping customers to use GE websites to order. Managers had to watch carefully for reprobate employees using "parallel paths" (the telephone, for instance, or a walk to a store) to order supplies, say, or arrange travel. Some offices even closed their mail rooms for all but one day a week (and that only for the incorrigible legal department) to stop employees from using regular post. Others locked their printer rooms except for occasional days when bosses would station themselves at the door and demand from those who came through an explanation for their sad inability to shake old paper habits.

For now, most of this is about cost savings and improved quality. But over time GE hopes its e-business projects will allow it to come up with new products, such as services that turn one-time purchases into recurring revenue streams, and sell to new customers that its existing salesforce cannot reach, such as small businesses. It also hopes to expand its supplier base by letting more firms bid online, through auctions and other marketplaces.

GXS has restored GE's reputation in (depleted) B2B circles. But although the company is now free to invest in its own research and development at a rate closer to that of its independent competitors, it still cannot buy other firms, as they can, with shares. GE may now be flexible about internal e-business

spending, but earnings-diluting acquisitions are still hard for it to swallow. This constrains its ability to profit from the industry's consolidation: it must stick mostly to its strategy of organic growth and internal development. GE breaks many moulds, but there are limits to what even the most entrepreneurial arm of a conglomerate can do.

That does not undermine the scale of GXS's achievement; rather, it suggests how hard it is for big companies to keep up with nimble newcomers. Asked if he can think of any other successful high-tech companies that have grown up within a diversified industrial conglomerate, Mr Seegers ponders. "No," he finally concedes with a smile. "We'll be the first."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

B2B exchanges

Time to rebuild

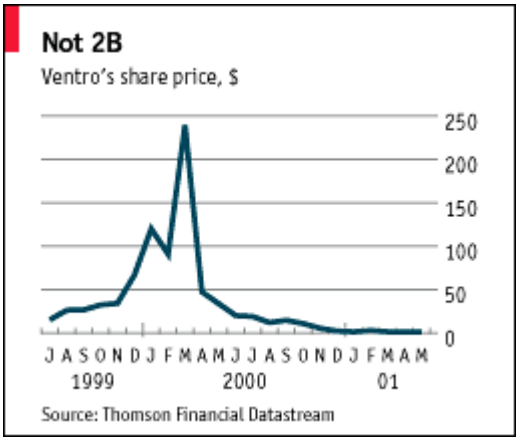
May 17th 2001
From The Economist print edition

The once-promising field of business-to-business exchanges is in turmoil. But a genuine transformation is going on nevertheless

"IF YOU build it, they will come." That seems to have been the mantra of the hundreds of public business-to-business (B2B) exchanges that popped up during the Internet boom. The idea was that such marketplaces would act as matchmakers between buyers and sellers in particular industries, and take a small fee in return. As business-to-consumer websites struggled to make money, B2B exchanges became all the rage. Many were built. Share prices soared. But almost nobody came.

Ventro, a B2B pioneer based in Mountain View, California, is a case in point. The firm, formerly known as Chemdex, set up public B2B exchanges for the life-sciences and medical-equipment industries and was the first such marketplace to receive venture capital. After a flotation in July 1999, its shares rose from $15 to a high of $240. Its revenues in 1999 were $30.8m. Mary Meeker, Morgan Stanley Dean Witter's bullish Internet analyst, predicted that revenues in 2000 would reach $129m.

Such optimism proved unfounded. This year, Ventro's revenues are likely to be rather lower: zero, to be precise. On April 30th, it reported its second consecutive quarter of no revenue, and admitted that it did not expect any revenue in the next two quarters either. Ventro's marketplaces have been shut down, three-quarters of its staff have been sacked and its shares are now trading below $1 (see chart). The company is running through its remaining cash as it struggles to reinvent itself as a provider of B2B-exchange software, rather than an exchange operator.



The outlook is equally bleak for other public exchanges. According to International Data Corporation, a market-research firm, of the thousand or so B2B exchanges launched in the past 18 months, only about 100 are handling any genuine transactions. Instead, the action in B2B turns out to be elsewhere: in industry-specific consortia and in private exchanges operated by large companies. Here, too, things have not turned out quite as expected. There is definitely money to be made in B2B exchanges, but the field will be slower-moving and less lucrative than was once thought.

With hindsight, it is not hard to see why public exchanges have done so badly. Signing up suppliers and putting software in place was not enough; the missing element was liquidity. In contrast, when several large companies form a B2B consortium and commit themselves to using it, some liquidity is guaranteed. Covisint, a car-industry B2B consortium whose members include General Motors, Ford, DaimlerChrysler, Renault and Nissan, is expected to handle $750 billion in annual purchasing when it is up and running (several months later than first planned).

Consortia have other advantages. Unlike independent public exchanges, they have the clout and the backing to define and impose standards. And their members, which tend to be large companies, can force their suppliers to sign up or risk losing business.

But consortia have drawbacks, too. For a start, they raise the prospect of collusion between members, to the disadvantage of their suppliers—even if B2B is still so embryonic that there is little to worry about

just yet. They are also unlikely to make all that much money. And to the extent they do, a chunk of their profits may come at the expense of their owners.

In some industries, firms used independent public exchanges briefly and then opted to set up consortia instead, with a view to lucrative flotations. At one time, some industry exchanges were expected to be worth more than their parent companies. Instead, says Henry Elkington, an analyst at Boston Consulting Group, consortia are now seen as boring but important utilities, akin to the bodies set up by banks to handle cheque clearing.

Perhaps the biggest drawback of consortia, however, is that, if several competing firms in a particular industry agree to team up, all will benefit from being able to deal with their suppliers more efficiently—but none will gain any advantage over its competitors. Firms are also wary of revealing proprietary information to their rivals through such exchanges. This is where the third approach to B2B—private exchanges—comes in.

Unlike public exchanges and consortia, which bring together many buyers and sellers, private exchanges allow a single firm to deal with its customers or suppliers directly, and to control who sees what. There is still plenty of scope for improving efficiency. IBM, for example, estimates that it saved $377m last year by using its private exchange, through which it can reveal sensitive price and inventory information to chosen customers and suppliers. Private marketplaces also have the advantage that they allow firms to sell products based on features other than price, by providing additional information to potential buyers. Such subtleties tend to be lost on public exchanges.

The likely outcome is that firms will use a mixture of public and private exchanges. A company may, for example, establish a relationship with a supplier through a consortium, and then invite that supplier to use its private exchange. The key, writes Mr Elkington in a report published this week, will be to exploit public exchanges to create private sources of advantage.

Getting beyond simple

So far, however, few companies have done this. Instead, most are concentrating on the simplest aspect of B2B: online procurement of office supplies. According to Keith Krach of Ariba, a leading B2B-software vendor, online procurement reduces transaction costs and paperwork, provides economies of scale through consolidated purchasing and reduces the level of unapproved “maverick” purchasing. This is all true, but it suggests that B2B boils down to a cheap way to order envelopes.

The challenge is to get from online procurement, which is easy, to a vibrant private exchange that can be integrated with existing supply-chain management systems. The good news for B2B vendors is that large companies are serious about taking their purchasing online; unlike other supposedly revolutionary software strategies, such as data-mining or customer-relationship management, B2B is not regarded as a fad. According to Boston Consulting Group’s forecasts, by 2004 one in three transactions between companies will be conducted online in America, and one in five in Europe.

The bad news is that the adoption of B2B will take several years, since companies will first have to put the Internet at the heart of their day-to-day operations. And at that point, the distinction between B2B software and other e-business software starts to blur, which puts sellers of B2B software, such as Ariba and Commerce One, in a difficult position.

Firms that specialise in B2B software might be pushed aside by larger software companies, such as Oracle, IBM and SAP, which are adding online procurement and other fancy B2B functions to their existing e-business software—and offering the lot at a knock-down price. As a result, the outlook for B2B specialists is uncertain. Worries about a forthcoming report on the subject by David Hope-Ross, an analyst at Gartner Group, caused Ariba’s share price to fall by 15% last week; Mr Hope-Ross is expected to predict that specialist B2B software firms will be extinct by 2004.

Ironically, it now looks as though the greatest beneficiaries of B2B will be large old-economy firms such as GE (see article), which will use online purchasing to squeeze their suppliers; and established software firms, which will sell them the software to do it. Most independent public exchanges are dead already, and things are not looking good for fledgling B2B software firms either. So much for the dream of friction-free capitalism levelling the playing field between large and small firms. Contrary to expectations, the lesson of B2B seems to be that big is beautiful.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Spain's Zara

Floating on air

May 17th 2001
From The Economist print edition

A mixture of vertical integration and street smarts has transformed a small Spanish clothing chain into a global success

MOST fashion retailers discreetly tuck their price tags inside their garments. Not Zara. Its sales tickets are big and colourful, emblazoned with the flags of a dozen countries, each accompanied by a local-currency price that is the same for that item around the world, from Madrid to Riyadh to Tokyo.

In an industry traditionally geared to local tastes, this United Nations approach exemplifies the centralisation and integration that have turned Zara into the world's fastest-growing retailer. Over the past five years, the number of its stores has risen from 180, mainly in Spain, to 450 in 30 countries. Revenues have grown by an average of 27% a year since 1998.

Founded in 1963 as a maker of ladies' lingerie in the Galician town of La Coruna, Zara today is the centrepiece of Inditex, a holding company for five fashion chains that is planning an initial public offering on the Madrid bourse on May 23rd. The flotation is expected to value Inditex at as much as *euro*9.3 billion ($8.2 billion) and cement the standing of its reclusive 65-year-old chairman and majority shareholder, Amancio Ortega Gaona, as Spain's richest man. Mr Ortega started the business with just 5,000 pesetas ($83).

At the heart of Zara's success is a vertically integrated business model spanning design, just-in-time production, marketing and sales. This gives the group more flexibility than its rivals have to respond to fickle fashion trends. Unlike other international clothing chains, such as Hennes & Mauritz (H&M) and Gap, Zara makes more than half of its clothes in-house, rather than relying on a network of disparate and often slow-moving suppliers. H&M, for instance, buys clothes from more than 900 firms. "Vertical integration has gone out of fashion in the consumer economy," says Richard Hyman of Verdict, a retail consultancy in London. "Zara is a spectacular exception to the rule."

Starting with basic fabric dyeing, almost all Zara's clothes take shape in a design-and-manufacturing centre in La Coruna, with most of the sewing done by seamstresses from 400 local co-operatives. Designers talk daily to store managers, to discover which items are most in demand. Supported by real-time sales data, they then feed repeat orders and fresh designs into the manufacturing plant. This, in turn, ships the desired items directly to the stores twice a week, eliminating the need for warehouses and keeping inventories low (see chart).

The result is that Zara can make a new line from start to finish in three weeks, against an industry average of nine months. It produces 10,000 new designs each year; none stays in the stores for over a month. Jose Maria Castellano Rios, the firm's chief executive, who rather prosaically compares the shelf life of a new frock to that of a tub of yoghurt, says constant refreshment of the store offering creates a sense of excitement that attracts new shoppers and ensures that old ones return.

Moreover, Zara's business model makes it highly price-competitive, allowing it to offer mid-market chic at downmarket prices. And it protects against slip-ups, too. Whereas most retailers have committed 60% of their production at the start of a season, the figure at Zara is 15%, so it is easier to dump a range that turns out to be unpopular—and Mr Castellano admits that Zara, like everybody else, makes mistakes.

It tries to minimise them, however, by pushing its designers on to aeroplanes to search out new trends. Constant travel, catwalk shows and even music videos help to bring new ideas—a look seen on MTV can

be in the stores within a month.

This is underlined by Zara's expansion plans. At a bad time for many international retailers—Marks and Spencer is retrenching overseas, while both Gap and H&M have issued profit warnings—Inditex plans to open 150-200 new shops in each of the next three years and to plant its flag in Switzerland, Italy, the Czech Republic and more of Latin America and Asia. Most of the new stores—and the accompanying $1.1 billion of capital spending—will be for Zara, which contributes almost four-fifths of Inditex's *euro*2.6 billion annual sales.

There is nothing wrong with taking advantage of rivals' weakness to grab market share, but Zara's (still entirely Spanish) management will have to be careful not to indulge in the over-expansion that floored so many of its rivals. The further the group gets from its heartland, where it has faced only modest competition, the more its model will be stretched, given its lack of local distribution. It is also unclear how successfully Inditex can apply the Zara approach to its smaller chains, some of which it acquired rather than built itself. But these are niggles. For the moment at least, there appears to be one United Nations that works.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Face value

Foundry father

May 17th 2001
From The Economist print edition

Morris Chang, the master of contract chip manufacture, is blasé about the semiconductor crash

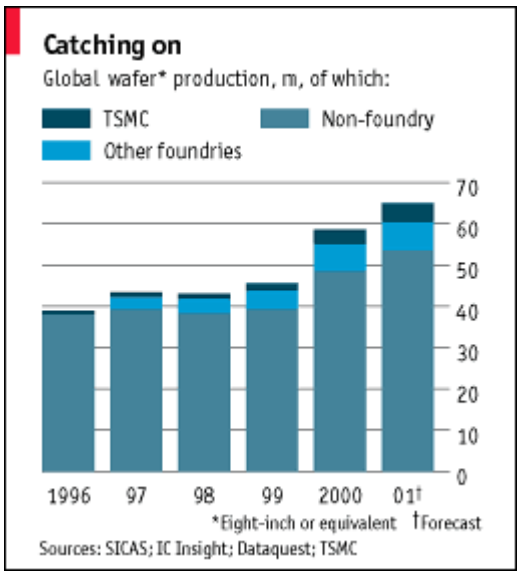
NOW would seem to be an awful time to be a microchip manufacturer. Less than a year ago, the industry could barely keep up with the demands of its high-flying, high-tech customers—makers of mobile phones, computers, Palm Pilots and other fancy gadgets. Now those customers are flying low: with piles of semiconductors in stock, they are understandably loth to order any more. Suddenly, the world's chip factories (known as "fabs", or fabrication plants) stand almost idle.

The pain is showing. The world's third-biggest contract manufacturer of chips, Singapore's Chartered Semiconductor Manufacturing, slipped into loss in the first three months of this year. In the same quarter, the net profits of the second-biggest, United Microelectronics Corporation of Taiwan, and the biggest, Taiwan Semiconductor Manufacturing Company (TSMC), fell by 13% and 17% respectively compared with the same period last year. TSMC reckons that its profits for the full year could be down by some 60%.

Reason enough, it might seem, for Morris Chang, founder and chairman of TSMC, to worry. Not quite. To be sure, Mr Chang sees nothing positive about the present slump. But then again, he has been in the industry since 1955 and has already lived through eight cycles. Of those, he thinks, this downturn will be the worst, because it follows not an upturn but a mania. But it, too, will pass. And Mr Chang, perhaps more than anybody else in his industry, has reason to look forward to what will happen then.

This is because the downturn could prove little more than a lull before the ultimate vindication of an idea that Mr Chang had in 1985. By then, he had been a top semiconductor manager at two American companies, Texas Instruments and General Instrument, and, in his 50s, was weary of the rat race. He was rich enough to retire, but was worried that he would find that boring. In any case, the Shanghai-born Mr Chang was sentimental about his native Chinese culture. So he moved to Taiwan, then an up-and-coming Asian tiger, to work for a local research institute. His brief was to convert knowledge into profit.

That suited Mr Chang, as thinking is something that he does quite deliberately, and enjoys. His ability to grasp complexity helped him become one of the 1,000 best contract-bridge players in America and attracted Bobby Wolff, a ten-time world champion, to be his playing partner. And in Taiwan in 1985, his thinking led to inspiration.



The inspiration was this: the semiconductor industry, Mr Chang understood, was in fact not one but two industries, and it would be best to separate them out. One industry is about designing chips, which requires lots of talent but little capital. The other is about making chips, which requires more capital than talent. A fab costs between $2 billion and $3 billion to build.

At the time, huge so-called integrated device manufacturers (IDMs), such as Intel, did both the designing and the manufacturing under one roof. There were only about 20 fabless chip-design houses, and these depended on the IDMs to lease them capacity in their fabs. The IDMs often made this unattractive by insisting that the fabless share their designs.

Mr Chang's solution was the foundry. A foundry would specialise in capital-intensive manufacture and do none of the design. It would then sell capacity to many customers—not only chip designers that had no plants but also IDMs whenever they hit production bottlenecks—and thus achieve economies of scale and better returns on big capital investments. For designers, foundries would lower barriers to entry by offering them a factory for hire, while keeping their intellectual property secret.

In 1987, Mr Chang founded TSMC as the world's first foundry. To begin with, the IDMs did not take it very seriously. They gave it some business, but on the whole considered the idea crackpot—to this day, Intel, the largest IDM, maintains that chip design and manufacture belong together. The fabless designers loved the idea, of course, and flocked to TSMC. New design houses mushroomed, not least in Taiwan itself. By the late 1990s, the foundry had firmly taken root. United Microelectronics, Chartered Semiconductor and other start-ups flattered Mr Chang by imitating him.

Foundries were, however, still considered the poor relations of the glamorous IDMs. Technologically, they had always been a step behind—never quite managing, for instance, to etch the circuit lines on a chip (a popular measure of technological prowess) as narrowly as the top IDMs. Yet Mr Chang cracked this nut last year, on the eve of the slump, when TSMC finally surpassed the industry standard in circuit-line width.

Fab or fad?

This lends credence to Mr Chang's original hypothesis: that the trend is to specialise. Last year, foundries had a 16% share of the global chip market. TSMC had a 41% share of the foundry market. By 2010, reckons Mr Chang, half of all chips will be made in foundries, and by 2020 virtually all will be. "Our strategy depends on that happening," he says.

The semiconductor crash is undeniably a nuisance. But it will not stop Mr Chang, who turns 70 in July, from pursuing his long-term projects. Indeed, with a bit of twisting, he might even find a bright side to the slump. Capacity utilisation in TSMC's fabs is down, hurting profits and the share price. But at least this means that Mr Chang does not need to spend most of his time worrying about how TSMC could crank out enough chips, as he did during the boom. Now he has plenty of time to sit and think. Who knows? He may even find inspiration once more.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Prescription drugs

Protection racket

May 17th 2001
From The Economist print edition

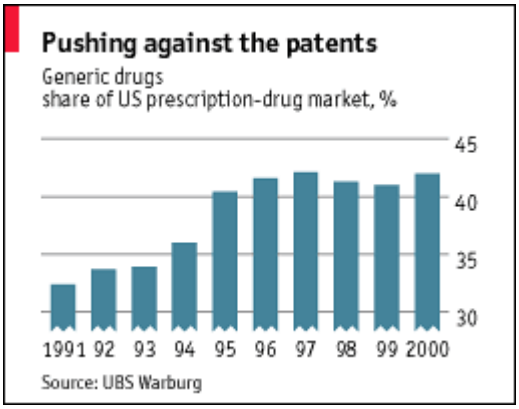
Brand-name drug makers are going to great lengths to spin out their patents

"IF YOU can't beat them, bribe them" is an age-old business tactic, but it is coming under fire in the pharmaceutical industry. On May 14th, 15 American states sued Aventis, a Franco-German drug group, and Andrx, an American generic-drug maker. The suit claims Aventis paid Andrx almost $90m to delay the introduction of a cheaper, generic version of one of Aventis's bestselling heart drugs when its American patent expired in 1998. The states are claiming $100m in compensation for the higher prices they have had to pay in the absence of generic alternatives. Last month, the Federal Trade Commission (FTC) concluded that the arrangement between Aventis and Andrx had blocked others' entry to the market.

The FTC has several other drug companies in its sights. It has filed suit against Schering-Plough and two generic-drug companies for similar machinations to delay the launch of generic versions of K-Dur, another patented heart medicine. It is investigating possible collusion between Bristol-Myers Squibb and American Bioscience over Taxol, an anti-cancer drug. And it is preparing to launch a wider probe into anti-competitive practices among brand-name and generic-drug makers, which could put as many as 90 American drug companies under the microscope.

For Aventis and other firms in the risky business of developing new drugs, patents are crucial to both present and future profitability. In the industry's lucrative western markets, patents last for 20 years from the date of filing (although it can take half that time to get a drug to the market). While their product is patent-protected, drug companies can charge whatever the market will bear, in the hope that they can recoup the vast sums—$500m, on average—that go into making the drug in the first place, and still have enough left over to invest in developing new drugs and to give attractive returns to shareholders.

Once the patent expires, however, generic versions are allowed on to the market, usually at a heavy discount. The first generic rivals in America, for example, usually cost two-thirds of the price of their branded counterparts, and they eventually fall to a fifth of the price of the patented original. Not surprisingly, generic drugs are popular with private insurers and state health-care systems: generic medicines account for 42% of all prescriptions dispensed in America (see chart).



Given that drugs with annual sales of roughly $28 billion are due to go off patent in America by the end of 2005, it is not surprising that the big firms want to stretch their patents out. Some are more desperate than others: around 40% of AstraZeneca's total sales, for example, come from a single drug, Losec, whose American patent is scheduled to expire this year.

Apart from the dubious methods cited in the lawsuits, drug firms have a variety of legal means to spin out their patents in America. Some come from exploiting loopholes in the Hatch-Waxman act, which regulates the marketing of copycat drugs. For example, when a generic-drug maker submits an application to launch a medicine with America's drug regulator, the FDA, the patent-holder is entitled to file an infringement suit that automatically delays the release of the generic version by 30 months. Such lawsuits are strengthened if the brand-name drug company files a new patent covering, say, the colour of the pill bottle just before the main patent is about to expire. A bill recently introduced in Congress may well close these loopholes. William Nixon, head of America's Generic Pharmaceutical Association, agrees it is time to end such "systemic mischief".

But as Martyn Postle of Cambridge Pharma Consultancy points out, patent-holding firms have a variety of

other fixes at their disposal. Technical tinkering, such as changing the formulation of a drug from a fast-acting pill to a slow-release system, is a common tactic. Also popular with cunning firms is an FDA provision that allows a six-month patent extension on products to encourage firms to test the safety and efficacy of their drugs in children.

Balancing the interests of industry with public-health needs is no easy task. According to Stephen Rosenfeld, a lawyer with the Prescription Access Litigation Project, which has launched a class-action suit against AstraZeneca and Barr Laboratories over Tamoxifen, an anti-cancer drug, delays to generic drugs mean that 42m Americans who lack health insurance pay a high price, and may not get essential medicines at all. It is not only Africa, it would seem, that has a problem with access to high-cost, high-tech drugs.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Coffee-shop chains

Abuzz

May 17th 2001 | SAN FRANCISCO
From The Economist print edition

Upmarket coffee is all the rage. Can the big chains conquer the world?

AP

AS THE dotcom tide rolls back, washing the hyperactive geeks out with it, one thing is left forever changed by the "new economy". Once a simple treat for cops on patrol, coffee and doughnuts have become an elaborate morning ritual for America's jumpy workers. And the companies that sell the stuff are buzzing.

In contrast to the dotcom duds, shares in Krispy Kreme, a doughnut chain based in North Carolina that went public in April last year, have stayed steadily afloat at around three times the offer price, making it one of the best IPOs of last year. Peet's Coffee & Tea, based in Berkeley, California, went public on January 25th, hoping to emulate Krispy Kreme's success. Starbucks, the biggest American coffee-shop chain, has been public for nine years of rapid growth, and is planning to expand into continental Europe. So far, coffee retailing has beaten the market downturn. As the industry grows, however, it faces challenges on several fronts.

Starbucks descends from Peet's: its founder left the Californian firm to set up in Seattle in 1971, promising his former colleagues that he would leave the San Francisco Bay area to them for 21 years. Starbucks has long since outpaced its progenitor, with over 4,000 stores worldwide and a turnover of $2.2 billion in 2000. Peet's has 59 stores, and its turnover last year was $84.3m.

Unlike the other 500-pound gorilla from Seattle, however, Starbucks does not arouse the enmity of smaller rivals. On the contrary, Chris Mottern, chief executive of Peet's, acknowledges the good that Starbucks' aggressive marketing has done in awakening Americans' taste for better coffee. In 1993, the coffee market in America was worth $13.5 billion; most of this came from cheap robusta beans of the sort sold in tins in supermarkets. The "speciality coffee" market for stronger, arabica brews that are sold by Starbucks and Peet's was worth less than $1 billion. By 1999, the total market had expanded to $18 billion, of which $7.5 billion was speciality coffee.

Within the quality-bean segment, firms also specialise. Starbucks mostly sells drinks in cafés, which produce 85% of its revenues. Peet's has cafés too, but has concentrated on selling beans in bags to take home. Green Mountain, another speciality firm, has made office catering its target.

The economic slowdown has not hurt sales much so far. Sales at Starbucks' stores in California, where a power crisis is intensifying the gloom, have been growing at an even faster rate than those in the rest of the country. Any worries about rising bills for the power used in roasting coffee are offset by the on-going slump in raw-bean prices, which are at their lowest in ten years.

The smaller firms are content to grow within America for the time being. Peet's has sent coffee to a homesick Stanford student in Mongolia, and will take international mail orders on its website, but it has no immediate plans for a push overseas. Only Starbucks, which is on track to open more new stores this year than McDonalds—the first time any restaurant or café chain will have done this for decades—is pushing beyond America.

It opened its first Asian stores in 1996, in Japan and Singapore, and in 1998 it bought Seattle Coffee Company, a British copycat firm, and converted its 60 outlets into Starbucks shops. This year it is turning to the rest of Europe, with plans to open in six countries over the next two years. The first continental European Starbucks café, which opened in Zurich in March, is doing brisk business. American style appeals in coffee as much as in movies.

Wooing other continental Europeans will take more than just good coffee, however. Unlike Britons and Americans, they are already used to it, and have their own strong café cultures. Indeed, the inspiration for Starbucks' shift from selling beans to running cafés was a trip by its chief executive to Italy.

Italian coffee may yet have its revenge, by sneaking into America with help from none other than McDonalds, which now owns several coffee-and-sandwich chains, including Britain's Pret à Manger. The hamburger giant opened its first McCafé in America on May 2nd, in Chicago, after developing the concept in Australia. Selling pastries and arabica espresso from Italy, the chain is a shot at the giant of the coffee world by the only firm with a long enough reach to take it on across its home turf. And you thought cafés were for relaxing in.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Polish superstores

Hype on the Vistula

May 17th 2001 | WARSAW
From The Economist print edition

Poland is awash with foreign-owned hypermarkets. Will they survive?

IN A repeat of the megastore frenzy that gripped France 30 years ago, giant hypermarkets—this time all foreign-owned—have been springing up in Polish towns and cities. Lured by a lax planning regime in the early post-communist years, the big chains are shaking up a notoriously fragmented retail sector and pulling in crowds of shoppers.

With its inviting demographics—some 37% of the population is under 24—and soaring private consumption, it is not surprising that Poland is host to more foreign retailers than any other country. Since Austria's Billa (now owned by Germany's Rewe) burst on to the scene in 1990 with a then-revolutionary supermarket on the banks of the Vistula in Warsaw, dozens of retail giants, including Germany's Metro and France's Carrefour, have set up shop.

Located on the outskirts of towns so as to avoid property bottlenecks in city centres, most hypermarkets act as magnets for trendy shopping malls. These are chipping away at Poland's traditional retail structure, with its ranks of tiny shops and bazaars. Hypermarkets, malls and discount stores already account for 11% of total retail sales, and have 25% of the food market. This may reach 40% by 2003 if hypermarkets continue their rapid expansion.

A French-style spanner, however, has now been thrown in the works. In response to growing complaints from small shopkeepers that they are being squeezed out, conservative lawmakers pushed through their own version of France's controversial 1973 Royer law last July. This granted local authorities the power to approve or deny planning bids for large shopping centres. The government is also under pressure to clamp down on predatory pricing and has stepped up trading and labour inspections of hypermarkets.

This get-tough approach persuaded some big chains and discount-store firms to band together as the Polish Organisation of Commerce and Distribution (POHID), partly in a bid to "demythologise" the role of foreign hypermarkets. Maria Andrzej Falinski, head of POHID, scoffs at complaints that Polish goods account for barely half the chains' supplies (the real figure is close to 90%) and laments opinion polls that claim 70% of Poles think the chains threaten small shops.

Retail analysts are not sure what the fuss is about. The top five retailers in Poland—all foreign-owned—account for only 12% of the market, according to Magda Zimna of CAL, a Warsaw consultancy, far below the 60% share that the top five have in Germany or Spain. Moreover, urban Poles tend not to be one-stop shoppers, instead (for now) preferring daily purchases at neighbourhood shops.

Although small shopowners are likely to benefit in the short term from restrictions on suburban malls, they have won a pyrrhic victory, according to a study of Polish retailing by McKinsey, a consultancy. City centres, where small shops still thrive, supported by subsidised rents, risk becoming deserted, as hypermarkets stretch their lead in price and service. In any case, the big chains, especially France's veteran operators, saw the clampdown coming, and got planning permission for further stores prior to the ruling. For all the local opposition to their plans, they are determined to turn Central Europe's most populous country into a hypermarket heaven.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Consumer electronics

Let the games begin

May 17th 2001 | SAN FRANCISCO
From The Economist print edition

More is at stake in the battle of the consoles than mere video games

AP

Spoiling for a fight

THE plot could itself be turned into a video game. On one side are two burly Samurai, the elder called Sony, the younger Nintendo. On the other, there is a muscle-packed baseball champion going by the name of Microsoft. The prize in the first round is the holy grail of electronic gaming. In the second, it is no less than the top spot in home entertainment.

The E3 Expo, a showcase for electronic entertainment held in Los Angeles this week, saw some heavy posturing. On May 15th, Sony unveiled several alliances to strengthen its PlayStation 2 game console: one of these was with AOL, an online giant, another with RealNetworks, a provider of software for downloading music and video. The first deal will give users of the machines access to e-mail and other online services. The second will allow them to download songs and movies when they tire of shoot-'em-up games.

The baseball champ did not wait long for the chance to hit back. The day after Sony's deals were unveiled, Microsoft revealed more about the Xbox, its first foray into the console market, saying the machine would go on sale, for $299, on November 8th. At the same time, Nintendo, the firm behind the Game Boy, said it will launch its new console, the Gamecube, on November 5th.

It is easy to see why these firms are spoiling for a fight. Microsoft sees the video-game market as a huge opportunity. In 2000, consoles and games generated some $15 billion-20 billion in sales worldwide, and the market is growing by more than 10% a year. Sony, for its part, would love to get a big piece of the PC market.

The battle of the consoles is not just about games and computers, however. It also reflects the continuing convergence of digital devices, which is blurring the lines between PCs, video games and other entertainment gadgets. Analysts increasingly consider game machines to be "Trojan horses" that are poised to take over the living room, as a carrier of all kinds of entertainment and interactive services.

Both sides in the battle have strengths and weaknesses. Sony has shipped 10m PlayStation 2 machines, for which hundreds of games are now available; these numbers are likely to more than double by the end of this year. What is more, the firm can now exploit AOL's 29m subscribers and offer RealNetworks' software. But PlayStation 2 games are difficult to develop, and Sony's proprietary technology can be a drawback. The initial difficulties it had ramping up production of its new console were mainly due to problems in the manufacture of its in-house chip.

Microsoft's weakness is different. It expects that only 15-20 games will be available when the Xbox is launched. Still, the software giant knows better than anybody how to attract developers and customers. The Xbox uses standard PC technology, such as a fast Intel chip and an operating system based on Windows 2000, so it is technically more advanced than Sony's offering and boasts more features.

Yet Microsoft might lose, for the same reason that no software maker has succeeded in dethroning Windows. Like the market for PC operating systems, the video-game market exhibits strong network effects that protect incumbents. The more games there are for a console, the more attractive it is for consumers, making it even more appealing to game developers. And here, Sony has a huge lead.

It is, though, always dangerous to underestimate Microsoft, as many a broken software firm can attest. Sony would do well to study the fates of Apple and Lotus, which had first-mover advantage in PC operating systems and spreadsheet programs respectively, but nevertheless ended up losing to Microsoft,

mostly thanks to their own mistakes. If, on the other hand, the Xbox fails, it will go down as one of the more remarkable flops in high-tech history: Microsoft has hinted that it will spend $500m over the first 18 months on marketing alone—more than it has splashed out on any other new product.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

China's state banks

An outbreak of honesty

May 17th 2001 | HONG KONG
From The Economist print edition

Bad news, from one of China's big state-owned banks, is actually good

LIU MINGKANG, who heads the Bank of China, one of the country's four state-owned giants, is the polished, international face of one of the world's worst banking systems. Speaking flawless English and dressed in a pin-striped suit, he joked to an audience of business leaders in Hong Kong recently that "China is like a castle besieged: those outside want to get in, and those inside want to get out."

The outsiders are foreign banks keen to do business in China; and Mr Liu, for one, thinks that partnering as well as competing with them would be good for Chinese banks. The insiders are people such as himself—Mr Liu intends to list his bank's Hong Kong operations in the territory later this year—who want to compete overseas, and to observe international standards in accounting and transparency. This gives Mr Liu something rare in Chinese banking: credibility.

That is why his confession this week that nearly 30% of the Bank of China's loan book is non-performing caused such ripples. The number is so awful that it might even be true. Two years ago, the government tried to clean up the big four banks by transferring their bad loans—one-fifth of the total—to so-called asset-management companies (AMCs), which had a mandate to recover whatever they could. For the Bank of China, which is easily the least bad of the four, to admit now to a fresh batch of dud loans on its balance sheet amounts to a recognition that, in effect, at least half of China's banking assets were bad to begin with.

That may sound dreadful, but it is broadly in line with what independent voices have been saying all along. It means, among other things, that the big four are technically insolvent. The governor of China's central bank, Dai Xianlong, conceded as much when he said last week that three of them—presumably the Agricultural Bank of China, the Industrial & Commercial Bank of China and the China Construction Bank—fail to meet international levels of capital adequacy even under present, lax accounting rules.

All of a sudden, honesty seems to have broken out in Chinese banking. Harrison Young, a banker at Morgan Stanley who has dealt with crises in America, Japan, South Korea and Thailand before turning to China, says that to come clean is a "spiritual watershed for the government."

China needed it. The state banks' bad loans are a symptom of a deeper malaise among China's state-owned enterprises (SOEs). Some four-fifths of the banks' loans are to such enterprises, and lending is still driven as much by politics as by credit considerations. Official accounts now report an improvement in SOE profitability: a majority are said to have made money last year. Yet by international standards, large numbers would not only still be losing money; they would be insolvent. Real banking reform therefore rests upon SOE restructuring, which more hard-nosed lending should hasten.

The good, the bad and the ugly

Transferring bad loans to the asset-management companies is not turning out to be much of a solution. The idea, as in other countries with banking troubles, was to create "good banks" and "bad banks": the good banks (ie, the big four) would get a clean start, while the bad banks (the AMCs) would sort out the mess. In China, neither is happening. Some two-fifths of new lending by the "good banks" is to consumers in the form of, say, mortgages: a welcome change of habit. All the same, three-fifths still

goes to the same cash-strapped SOEs as before, usually in the form of working capital. The government cannot countenance cutting credit lines to all at once. So the big four are constantly adding new bad loans to their old ones.

The “bad banks”, meanwhile, cannot do their job either. In America, during the savings-and-loan meltdown of the 1980s, the Resolution Trust Corporation recovered as much as possible by forced liquidation. China’s AMCs, however, have all but given up on that. It would require a fire-sale of much of the state sector, and the country’s fledgling bankruptcy courts are already out of their depth.

By default, the AMCs have therefore been swapping debt for equity in the SOEs. As owners, overstretched and under-trained, they are no better than the incumbent managers at improving corporate governance and profitability. The AMCs now talk about auctioning bad loans to foreign investors, but they are likely to balk at the prices on offer.

A reckoning will come. “One of the dark little secrets of the AMCs is that they have no money,” says Nicholas Lardy at the Brookings Institution, a Washington think-tank. The AMCs “bought” the bad loans by issuing bonds to the banks; interest now has to be paid on these. The cash for this, less what can be raised at auction, can only, eventually, come from the taxpayer. Seen in this light, the issue becomes one of internal debits and credits in government accounts: a fiscal problem, in other words. Some analysts, such as Morgan Stanley’s Asian economist, Andy Xie, are sanguine, since China’s “national” balance sheet looks solvent. Others, such as Mr Lardy, predict large budget deficits and worry that China might run into trouble issuing enough new bonds.

The biggest risk for China is nothing as dramatic as a financial meltdown. Rather, it is continued inefficiency in banking services and in the allocation of capital. China has vast domestic savings, but these are stuck earning measly interest in the banks. The central bank still fixes the price of money. Indeed, as a sop to the big four banks, plans to liberalise interest rates within three years have been delayed.

A big chunk of people’s deposits ends up funding SOEs that make goods nobody wants to buy, build offices nobody wants to occupy, and so forth. And what the banks do not squander in loans, they waste on unneeded staff. The big four banks have 1.5m employees between them, a mere 6% below the 1997 level. For China’s Communist leaders, who have nailed their political survival to the cross of market reforms, the biggest threat might be more years of waste.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Wall Street

Mopping up the mess

May 17th 2001 | NEW YORK
From The Economist print edition

A number of investigations into Wall Street shenanigans are under way

AP

Paper trail

AFTER the party, the hangover. Investigations into possible misdeeds on Wall Street during the great bull market are multiplying. Accounting fraud, market manipulation and insider trading are some of the charges that are flying about. There is now a new bull market, for lawyers who specialise in white-collar crime.

This week the Securities and Exchange Commission (SEC) charged former executives of a big appliance maker, Sunbeam, as well as the auditor who signed off its books at Arthur Andersen, with rigging the company's financial reports in order to make sales seem more robust than they were. This follows the announcement of an insider-trading case against a Mexican family that allegedly profited mightily from an insider's tip about the takeover of an Illinois chemical company. And titbits emerge almost daily about two investigations, by the SEC and federal prosecutors in New York, into the once feverish market for initial public offerings (IPOs).

The sins are not new—but they have become more sophisticated. The insider-trading case announced on May 9th follows the trail across half-a-dozen borders and a raft of complex corporate structures. Jose Luis Ballesteros Franco, a prominent Mexican businessman who has since died, attended a board meeting in June 1999 of Nalco Chemical, where he heard about an acquisition offer by a French company, Suez Lyonnaise des Eaux, for a great deal more than Nalco's then-market price.

Over the next week, he and his brother went on a spree, regulators allege, acquiring shares in Nalco that they sold the following month for a profit of over $3m. Nothing unusual so far. The challenge for investigators, though, was to link the trades to a guilty party. According to the indictment, orders were placed with Bankers Trust in New York and Citibank in Mexico on behalf of four Irish investment firms, each controlled, in turn, by trusts whose beneficiaries were the alleged insider dealers. Trades were placed through Swiss accounts run from Jersey. Other companies were registered in the West Indies.

Now, some of the Ballesteros clan have settled with the SEC. Regulators and prosecutors will not provide details about sleuthing techniques. But the SEC's head of enforcement, Richard Walker, says it is investigating a record number of cases involving insider trading in American shares by people outside the country.

The Sunbeam case bids fair to become a staple of business-school accounting classes. In 1996 Al Dunlap ("Chainsaw Al", because of his fondness for firings) was hired to run Sunbeam, an appliance maker in deep trouble. According to the SEC's complaint, Mr Dunlap's first step was to declare unnecessarily large losses for 1996, providing a "cookie jar" of reserves to boost profits in 1997. Sunbeam then shipped out more in 1997 than merchants could sell, a practice known as "channel stuffing". That boosted revenues that year, but had a terrible effect on results for 1998. When goods were returned, efforts were made to disguise the impact. "Increasingly desperate measures" were then taken in 1998 to "conceal the company's mounting financial problems", including more attempts artificially to boost sales.

Lulled by reported numbers that did not reflect the company's deteriorating situation, investors piled into Sunbeam shares. Bosses would have made a fortune had a buyer been found for Sunbeam, but no deal materialised, and by June 1998 the board had launched an investigation and fired Mr Dunlap. The SEC is charging him and other Sunbeam executives, as well as the partner at Arthur Andersen who approved the company's financial statements, with fraud.

Meanwhile, in an investigation attracting lots of publicity, prosecutors in New York and from the SEC are looking at the behaviour of big investment banks that underwrote IPOs during the bull market. Two separate cases are being pursued: the first involves allegedly excessive commissions, the second requirements by investment banks that customers given shares in particularly hot deals should buy still more in the aftermarket—in effect, rigging that market. Last month Credit Suisse First Boston placed on paid leave two brokers from its successful department underwriting technology shares, for violating company policy on the allocation of IPOs.

Only a year ago, law firms complained they were losing their brightest to Wall Street. Now, presumably, the ones who stayed can represent their old chums.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Foreign listings in America

A long arm for securities law

May 17th 2001 | WASHINGTON, DC
From The Economist print edition

A new move to use securities disclosure to enforce sanctions abroad

THE Securities and Exchange Commission (SEC) has just announced new disclosure rules that expand its scrutiny of foreign firms. It will require companies seeking to sell securities in the United States to disclose their activities in countries subject to American government sanctions—places like Cuba, Iraq and Sudan. Depending on how fund managers and allies react, says Roger Robinson, head of the William J. Casey Institute, the initiative could have “ground-breaking foreign-policy implications”. His think-tank has long agitated to have problems of national security, human rights and religious freedom treated as investment risks.

The new interpretation changes the way in which the SEC enforces its requirement to disclose anything that makes an offering risky or speculative. In the past, that has applied to, say, environmental risks or lawsuits, but not to political risk or national security. Now it will.

The change was announced in a peculiar way: in a letter from the SEC’s acting chairman, Laura Unger, to Frank Wolf, who chairs the House subcommittee responsible for the SEC’s annual funding. Mr Wolf was furious that PetroChina, one of China’s national oil companies, was able to seek a New York listing last year at a time when it was selling oil to Sudan. Mr Wolf thinks this helped the Muslim government to carry out atrocities against Christians in southern Sudan.

A slippery slope, it seems. America might seek to extend its sanctions regimes—such as the controversial Helms-Burton act—in an extraterritorial direction, in effect, by imposing capital controls on companies that congressmen dislike. It is unclear what the SEC will do with information that a firm trades with, say, Sudan or Iraq. It would rather pass this hot potato to an inter-agency group that would include the State Department and the Treasury to deal with hard cases. Such a group could recommend that the president use his powers to halt listings on grounds of national security.

The new rules could affect foreign firms in a more evolutionary way. They may force American portfolio managers to take account of newly revealed political risks, or face lawsuits from aggrieved shareholders. If so, market caution could end up extending America’s sanctions regime in a way that no amount of government posturing could achieve.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economics focus

Fuelling discontent

May 17th 2001
From The Economist print edition

How much should petrol be taxed?

THE tax on petrol varies widely around the developed world. America's gasoline tax is currently about 40 cents an American gallon, equivalent to 7 pence a litre. Many Americans are calling for it to be cut, as the summer increase in prices begins to make itself felt, and reflecting a more general alarm about the country's "energy crisis". In Canada the tax is half as big again as in America; in Australia it is more than double. In Japan and most of Europe, the specific tax on petrol is around five times higher than in America, standing at the equivalent of some 35 pence a litre. At the upper extreme is Britain, where fuel duty (paid in addition to value-added tax) has risen in recent years to a punitive rate of just under 50 pence a litre, seven times the American levy.

You would expect well-designed petrol taxes to vary from country to country, according to national circumstances—but not, on the face of it, by a factor of seven. In America it is taken for granted that Europe's petrol taxes, let alone Britain's, are insanely high, and presumably something to do with socialism. In Britain, on the other hand, it is taken for granted that America's gas tax is insanely low, part of a broader scheme to wreck the planet. Protests in Britain last year showed that petrol tax had finally been raised all the way up to its political ceiling—but nobody expects or even calls for the tax to be cut to the American level.

America and Britain may both be wrong about the gas tax, but it seems unlikely that they can both be right. So how heavily should petrol be taxed? A paper by Ian Parry of Resources for the Future, an environmental think-tank in Washington, DC, looks at the arguments*.

The most plausible justification for taxing petrol more highly than other goods is that using the stuff harms the environment and adds to the costs of traffic congestion. This is indeed how Britain's government defends its policy. But the fact that burning petrol creates these "negative externalities" does not imply, as many seem to think, that no tax on petrol could ever be too high. Economics is precise about the tax that should, in principle, be set to deal with negative externalities: the tax on a litre of fuel should be equal to the harm caused by using a litre of fuel. If the tax is more than that, its costs (which include the inconvenience inflicted on people who would rather have used their cars) will exceed its benefits (including any reduction in congestion and pollution).

The pollution costs of using petrol are of two main kinds: damage to health from breathing in emissions such as carbon monoxide and assorted particulates, and broader damage to the environment through the contribution that burning petrol makes to global warming. Reviewing the literature, Mr Parry notes that most recent studies estimate the health costs of burning petrol at around 10 pence a litre or less. The harm caused by petrol's contribution to global warming is, for the time being, much more speculative. Recent high-damage scenarios, however, put an upper limit on the cost at about $100 per ton of carbon, equivalent to 5 pence a litre of petrol. Adding these together, you come to an optimal petrol tax of no more than 15 pence a litre.

Jammed

High petrol taxes also help to reduce traffic congestion. However, they are badly designed for that purpose. Curbing the number of car journeys is only one way to reduce congestion. Others include persuading people either to drive outside peak hours or to use routes that carry less traffic. High petrol taxes fail to exploit those additional channels. As a result, Mr Parry finds, the net benefits of a road-specific peak-period fee (the gain of less congestion minus the cost of disrupted travel) would be about

three times bigger than a petrol-tax increase calculated to curb congestion by the same amount. Still, if politics or technology rules out congestion-based road-pricing, a second-best case can be made for raising the petrol tax instead. According to Mr Parry, congestion costs in Britain might then justify an additional 10 pence a litre in tax.

This brings you to a total petrol tax of around 25 pence a litre. The pre-tax price of petrol is currently about 20 pence a litre, so this upper-bound estimate of the optimal tax represents a tax rate of well over 100%—a "high tax", to be sure. Yet Britain's current rate is roughly double this. On the same basis, of course, America's rate is far too low (even a lower bound for the optimal rate would be a lot higher than 7 pence a litre).

Britain's rate, judged according to the environmental and congestion arguments, looks way too high—but plainly the British government has another reason for taxing petrol so heavily. It needs the money to finance its plans for public spending. Politically, raising money through the tax on petrol, protests notwithstanding, has proved far easier than it would have been to collect the cash through increases in income tax or in the broadly based value-added tax—or, for that matter, through congestion-based road-pricing (always dismissed as "politically impossible").

This seems odd. Supposing that actual and projected public spending justified higher taxation, Mr Parry's analysis strongly suggests that the country would have been better off paying for it through income taxes than through a punitive petrol tax. And the petrol tax is not only wasteful in economic terms, if Mr Parry is right; it is also regressive in its distributional effects, increasing the cost of living for poor car-owning households much more than for their richer counterparts.

At last, Britain has found the political ceiling for the petrol tax. What is remarkable is just how high it proved to be.

---

* "Are Gasoline Taxes in Britain Too High?" Resources for the Future's website is www.rff.org

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

A human trading error

Rogue blunderer

May 17th 2001
From The Economist print edition

Trading systems cannot guard against their users

NOT all the fancy systems in the world, it seems, can put an end to simple, human cock-ups. On May 14th London's stock exchange went for more of a tumble than it would otherwise have done because a trader at a bank keyed in the wrong number of shares on his trading screen. The mistake meant that a sell order on a basket of shares worth a reported £30m ($43m) turned into one valued ten times that. The FTSE 100 index, already slightly down, fell by 2.2% in the final moments of trading, when the trade was made.

Lehman Brothers is believed to be the source of the rogue programme trade. Yet believe it or not, there is not much *Schadenfreude* among City rivals. "Just about every firm has had one of these incidents," says the head of one bank's programme-trading desk. "I've seen this happen many times before." In 1998 a trader at Salomon Brothers leant an elbow on a computer keyboard, firing off an order to sell FFr7.3 billion ($1.2 billion) of French government-bond futures. Most snafus get hidden in the normal flutters of a day's trading.

Still, the exchange is trying to understand how such mistakes can happen. International financial powerhouses ought, after all, to be able to guard against such blunders. When traders put in their orders, alerts flash up to ask them if they are sure about what they have done, and to flag large trades that look odd. The problem is that, in the heat of the moment, traders often do not have time to think about each safeguard.

This time, Lehman Brothers will probably have lost millions of pounds as a result of its employee's mistake. It will have had to buy back shares it sold at prices it was responsible for depressing. Sometimes, though, traders are keen to point out, banks make big money from their errors. Whatever it takes.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

New trends in accounting

Touchy-feely

May 17th 2001
From The Economist print edition

Accountants want to start measuring intangible assets and new economy "value drivers". They are unlikely to be any good at it

SHOULD "female potential" be rewarded with a place in companies' annual reports? Or how about the share of the staff who are younger than 40 and possess a college degree? These criteria, and many more like them, are to be found in supplements to past annual reports from Skandia, a Swedish financial group. Telling the world about its female managers and the average age of its workforce, the company thought, would attest to its wealth of "intellectual capital".

Skandia's efforts in this direction seem to have petered out after 1999, when its most recent supplement was published. Now its touchy-feely approach looks prescient. Inside accountancy a debate is growing about recognising and measuring internally generated intangible assets—such things as intellectual capital and research and development. Many argue that more attention also needs to be paid in annual reports to non-financial, "soft" measures such as speed-to-market, quality of management and customer satisfaction. Ideally, the fans say, there should be rules about what extra information companies must disclose, and how.

Late in 1999 America's Securities and Exchange Commission (SEC) gathered some people together to look into how accountants might get better at revealing "value in the new economy". According to Jeffrey Garten, dean of Yale's business school and leader of the SEC's task-force, which will report its findings later this month, changes in the world's industrial structure are threatening to make existing accounting standards obsolete.

Profits in the Internet age, the argument goes, are generated less from solid assets such as factories than from intangibles such as research and development or software programs. The SEC's report will conclude that companies should experiment with disclosing new types of information. A report in April by the Financial Accounting Standards Board (FASB) said that it would undertake four projects on non-financial metrics and intangible assets.

The problem with all of this is that nobody inside the accountancy profession has much idea of how to put a numerical value on internally generated intangible assets, at least not while staying true to the principle of reliability. Under the present regime, most intangible assets are recognised in the balance sheet only when one company buys another and has to account for the "goodwill" part of the cost.

In the case of research and development, arguments have raged for years over whether companies should be allowed to make an asset out of R&D spending, instead of charging it as an expense through the profit-and-loss account. Yet even with R&D, one of the most concrete of intangibles, there is often little connection between the amount of money invested and a new product's eventual return. For some inventions the return will exceed costs a hundredfold; others, such as a drug that fails its final tests, will produce no reward at all. Putting R&D on the balance sheet therefore risks drastically under- or overstating the size of a company's assets, and so misleading investors.

Brands, another favourite candidate for inclusion on the balance sheet, are clearly valuable, but they are also volatile. What happens to the value of a brand in the event of a product being taken off the market, like Firestone's dangerous tyres? Intellectual capital is also hard to pin down, since employees leave companies whenever they like, taking it all with them.

Soft measures, if required by the authorities, could end up being used to hoodwink investors. Companies would have an incentive to create flattering statistics. Would auditors, given the task, catch them if the figures were misleading? "Accounting firms have a difficult enough time auditing the hard numbers, let alone the soft ones," says Arthur Levitt, the SEC's chairman in 1993-2000. Some measures could be used to hype companies, he suggests. Another limitation, says the FASB, is that non-financial measures

tend to be peculiar to a single industry or even company, making comparisons hard.

There is already plenty of non-financial information floating around about companies. The front sections of many annual reports voluntarily disclose details about margin shifts, capacity utilisation and the like. Because these details are neither audited nor subject to strict presentational rules, investors know they should take them with a pinch of salt. Consultants such as Interbrand have developed ways to judge the value of brands, while human-resource firms sell expertise in the field of intellectual capital. Fund managers and analysts come up with their own, subjective valuations of intangible assets.

Big accountancy firms want to seize some of this territory. They worry that they are being left out of the "new economy", especially now that they are under pressure to avoid conflicts of interest that come from selling consulting services alongside audits. A book by three partners of PricewaterhouseCoopers called "The Value Reporting Revolution: Moving Beyond the Earnings Game" says that audit firms risk being ignored—as do the old-style financial statements they check.

These fears look misplaced. Now that once high-flying technology companies have seen their market capitalisations fall to earth, investors have less time for the kind of new valuation gimmicks—remember average value per marketing dollar spent?—that emerged at the stockmarket's peak. Good, old-fashioned accounting looks like coming back into vogue.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Securities settlement in Europe

Clearstream and muddy waters

May 17th 2001 | FRANKFURT
From The Economist print edition

A whiff of scandal at one of Europe's clearing organisations

IT HAS been a bad year for Clearstream International, one of Europe's biggest clearers and settlers of securities trades. First, it was found to have overstated the assets it held in custody by *euro*1.7 trillion ($1.5 trillion), the result, it said, of mistaken reporting by clients. Then, a book alleged that Clearstream had been laundering money. The company denies any wrongdoing and is suing the authors and editor for libel. All the same, prosecutors in Luxembourg, Clearstream's base, are investigating. And on May 16th the chief executive, André Lussi, and two other executives "stepped aside temporarily", pending the outcome of the inquiry.

Clearstream is also at the centre of a duller, but maybe more important, controversy: how many clearers does Europe need? In theory, no more than one, because the business offers huge economies of scale. Hence the enthusiasm of many big investment banks for a market like an "hourglass": trades from different exchanges would be funnelled through a single central counterparty (CCP). They would be cleared there before passing to settlement agencies. This would maximise the scope for "netting"—totting up all traders' sales and purchases and clearing the net amount, rather than clearing every trade. That would make cross-border trading, in particular, far cheaper.

For now, continental Europe has not an hour-glass, but many vertically integrated "silos", in which there are lots of clearers, mostly tied to exchanges. Euroclear, an independent rival, is bank-owned, and many would like to merge it with Clearstream. Banks say that costs in Europe are several times America's, where the Depository Trust and Clearing Corporation handles most security trades. The European Commission is looking into whether silos hinder competition.

Deutsche Börse, which runs the Frankfurt stockmarket, owns 50% of Clearstream. It would like to have the other half, and Clearstream's problems may give it the chance. But that would reinforce the system of silos—just what Europe's securities industry does not need.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Conflicts of interest

Outrageous fortune

May 17th 2001
From The Economist print edition

Some people feel that corporate sponsorship of scientific research amounts to the purchase of it. Editors of scientific journals reckon that vigilance is the answer

NEVER look a gift horse in the mouth, goes the adage, and the University of Nottingham, in England, certainly did not. Last winter, when British American Tobacco (BAT) offered the university £3.8m ($5.4m) to finance a centre for research on business ethics, with no strings attached, the university gratefully accepted. One of its academics, however, did not acquiesce so readily.

Because Richard Smith, a professor of medical journalism at Nottingham, also happens to be editor-in-chief of the *British Medical Journal* (BMJ), he was able to air his protests before a large and concerned audience of biomedical researchers. Two weeks ago, the BMJ polled its readers on the matter. It asked whether Nottingham ought to return the money to BAT. And it asked whether Dr Smith should resign his chair if the university kept the cash. When the Internet poll ended on May 10th, having garnered just over 1,000 responses, the voters had decreed by a small margin—55% to 45%—that Dr Smith should resign. And resign he will. By a far larger margin, however—84% to 16%—the voters opined that Nottingham ought to give the money back. The university, though, had not promised to make its policy by plebiscite, and so it will not oblige.

Should it? To Nottingham's critics, allowing a firm from one of the world's least socially responsible industries to sponsor a centre for the study of corporate responsibility smacks of the ludicrous. But such curiosities are not new. Alfred Nobel made his fortune from dynamite, yet the Nobel Peace prize is a coveted tribute. The Wellcome Trust, Britain's largest medical charity, received its original endowment from a drug firm. Rupert Murdoch, a press and broadcasting baron, recently endowed a chair in media studies at Oxford University. And Harvard has just appointed the first incumbent of a chair modestly entitled the "Quincy Jones Professorship of African-American Music, Supported by the Time Warner Endowment".

Dr Smith fears that BAT's donation amounts to the purchase of respectability by the tobacco firm at the expense of Nottingham's reputation. A more worrying threat would be if the donation amounted to the purchase by an interested company of scientific research at the expense of the integrity of the researchers and their findings. There is evidence that this has occurred in the past, sometimes in subtle and uncontrollable ways.

And now, a word from our sponsors

If hiring and firing decisions appear to turn on the interests of sponsors, for example, the independence of research may suffer. Such an incident occurred in April at the University of Toronto, which rescinded its offer of a job to David Healy. Dr Healy is well known for arguing that Prozac, an anti-depressant drug, raises the risk of suicide among depressives. The university's Centre for Addiction and Mental Health, where Dr Healy would have worked, receives funds from Eli Lilly, the makers of Prozac. The incident has caused much hand-wringing among Canadian academics, although the university and Eli Lilly both deny that the company's money influenced the centre's decision to withdraw its offer.

Financial interests can also exert an insidious bias on the results of research. In 1998, a review of literature published in the *New England Journal of Medicine* showed that authors who supported the use of a certain kind of drug for treating heart ailments were significantly more likely to have a financial relationship with the drug's makers than those who did not.

In the same year, a review published in the *Journal of the American Medical Association* (JAMA) examined articles about the health risks posed by passive smoking. The review's authors found that they could reliably predict what an article would conclude about the effects of passive smoking by looking at one simple factor: whether the article's authors had any financial affiliations with the tobacco industry. (No prizes for guessing which way results veered when they did.)

On the face of it, these discoveries look damning, both of science and of scientists. But Dr Smith thinks that mendacity is not always the explanation. Unintentional—even unconscious—bias can have powerful effects. Researchers do try to eliminate this. The standard experimental procedure for a test of a drug's effects, for example, demands a "double-blind" trial; that is, one where neither the researcher nor the subject knows whether a given pill contains a placebo or a drug. Double-blind design is not meant to imply mendacious intent on the part of researchers or of subjects; it merely takes into consideration the subconscious human bias that subtly creeps into scientific observation.

Nevertheless, "To try to abolish bias is impossible", according to Dr Smith. Since he is the editor of one of medicine's chief journals, and because such journals are the gatekeepers of the scientific community, this attitude may depress those committed to maintaining the purity of scientific research. But Dr Smith, as well as the editors of many other journals, believes that making the links between researchers and their sponsors plain will do the trick as well as it can be done.

To this end, the editorial boards of many journals are instituting more stringent and wide-reaching policies designed to get researchers to disclose their financial interests. The move has most relevance to medical journals that report drug trials. The BMJ already asks authors to declare "competing interests" and may soon shift to asking for "relevant interests", because its editors have found that such changes in terminology affect the proportion of people who own up quite significantly. The *Lancet* requires that a declaration of all conflicts of interest, past and present, must accompany each article submitted. JAMA insists that, if there is commercial sponsorship of a study, the authors must sign a form guaranteeing that they, rather than the sponsors, controlled the design, analysis and presentation of data.

Other scientific journals, such as *Nature* and *Science*, have less cause for concern, since the research they report tends to be basic, rather than commercial. Nevertheless, Phil Campbell, the editor of *Nature*, says that within a few months the journal will create a policy on the disclosure of financial interests. Donald Kennedy, who edits *Science*, says that the journal's editorial board is thinking about creating such a policy, too.

These editors are quick to point out that such requests, and the disclosures they elicit, are not a watertight way of ensuring the integrity of science. A scientist who is determined to conceal a conflict of interest will have little trouble doing so. But there is a natural check on such trickery—if an observant reader points out the ruse, the journal will publish a correction. Drummond Rennie, the deputy editor of JAMA, says, "We are JAMA, not the FBI or the IRS. Authors have lied to us, signing forms they knew to be wrong. That makes us look like naive idiots. Then we publish the facts and they look like corrupt idiots."

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Embryonic development

Chipping away at the truth

May 17th 2001
From The Economist print edition

It is now possible to follow the activity of genes as they build an organ

SANJAY NIGAM, a novelist, once told a reporter that "structuring a novel is a set of decisions about what to pursue and not to pursue." He might equally well have been discussing his latest research project. For Dr Nigam is also a physician and, in collaboration with Robert Stuart and Kevin Bush, two of his colleagues at the University of California, San Diego, he has begun to reveal the paths pursued and not pursued by developing cells as they turn themselves into bits of organs.

The three researchers, whose results are published in the *Proceedings of the National Academy of Sciences*, were studying the development of rat kidneys. They were able to take snapshots of the genetic activity of kidney cells at various stages of development by sampling the messenger RNA that is transcribed from active genes in a cell's nucleus and sent out to tell that cell's machinery which proteins to make.

The "film" on which these snapshots are recorded is a DNA chip, made by Affymetrix, a Californian firm. Such chips are divided into cells, each cell containing DNA from a known gene. Messenger RNA from a sample is copied back into DNA by a process known as reverse transcription and, at the same time, fluorescent molecules are incorporated into that DNA. Both the DNA on the chip and the DNA produced by reverse transcription are actually only half DNA molecules (a single helix, rather than a double one). When the reverse-transcribed DNA meets DNA from its original gene on the chip, it sticks to it to form a double helix, making that cell of the chip fluorescent.

Affymetrix's rat chip has 8,740 genes on its surface—about a third of the estimated total number that are needed to make a rat. The researchers found that the transcription of 873 of these genes varied in interesting ways as the kidney developed. The genes in question fell into five groups.

Group 1, active in the first few days of embryonic development, consists of genes that assist protein manufacture, DNA replication, and RNA synthesis—in other words, the fundamental processes of growth. One such gene is "Timeless", which encourages branching of the ureter, the tube that carries urine to the bladder. (The gene's name comes from another of its jobs, helping to regulate the body's internal clock.)

Group 2, whose expression peaks slightly later, includes genes for growth factors—proteins that, as their name suggests, promote cell growth. It also includes genes for the extracellular matrix, which consists of fibrous proteins that determine the shape of the cells they surround, and thus the shape of the organ. Following birth, the genes in group 4 control energy production and the transport of the toxins and water of which urine is composed. Group 5 genes are not expressed significantly until later in a rat's life, when they produce detoxification enzymes and proteins with anti-oxidant properties (similar to those found in wrinkle creams) which slow down the process of ageing.

That leaves group 3. These genes become active at the time a rat is born, and then fade away. Curiously, they are mostly so-called retrotransposons—genes that derive originally from viruses that ingratiated themselves into the chromosomes of rats' (and, indeed, humans') evolutionary ancestors many millions of years ago. When first identified, retrotransposons were assumed to be examples of "junk" DNA, but recent findings suggest they have a role in reducing stress damage. Birth is a stressful event, so this result strengthens that theory. Whether such suborning of hostile parasites into trusted allies will form part of the plot of Dr Nigam's next novel, remains to be seen.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Douglas Adams

So long, and thanks for all the fish

May 17th 2001
From The Economist print edition

A master of comic science fiction has died

THE best ideas are often the simplest. Legend has it that the idea for “The Hitchhiker’s Guide to the Galaxy” came to Douglas Adams when he was, himself, hitchhiking. He was in a field at night (most versions of the legend place this field in Austria), looking at the stars, when the thought came to him that there might be people hitchhiking between those stars on spaceships. Such people would, of course, need a guide to their travels: a compendium of useful information with that most useful of all injunctions, “Don’t Panic”, written on the front cover in large, friendly letters.

Thus the Guide was born. It was a Swiftian satire for the late 20th century. Instead of giants, pygmies and super-intelligent horses, it was populated by bug-eyed monsters who use poetry as a form of torture, creatures whose chromosomes are so unstable that they evolve several times a day, and super-intelligent shades of the colour blue. It even found room for an explanation of where ballpoint pens vanish to. (They slip through wormholes in space to biro heaven when nobody is looking.)

The idea went through several iterations, first as a radio series, then television, then a sequence of books which, though described as a trilogy, ran to five volumes. Then, in a twist that Mr Adams can hardly have expected when, in 1978, he first put pen to paper, the World Wide Web gave him a chance to create something like the real thing, at least for earth-bound travellers (www.h2g2.com). Douglas Adams died of a heart attack on May 11th while exercising in a gym. He was 49, not 42.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Electricity from waves

Power buoys

May 17th 2001
From The Economist print edition

How the sea stands a good chance against sun and wind

Reuters

I've got the power

WAVE power has so far promised a lot more than it has delivered. As early as 1982, Britain—which has one of the most abundant supplies of wave energy in the world—officially abandoned it, thinking it would never deliver electricity at a competitive price. When private enterprise moved in, Osprey, the first commercial wave-energy machine, was wrecked off the coast of Scotland by a storm in 1997.

According to America's Office of Naval Research, though, wave power is not dead in the water. A device developed for naval applications may have commercial potential. Working for the navy, a small, New Jersey-based company called Ocean Power Technologies (OPT) has made a buoy that turns wave energy into electricity at the rate of 1kW—enough power to run a single-bar electric heater. The buoy collects the energy using a piston that rides up and down with the motion of the waves. This turns a generator, and the electricity produced is stored in a battery.

The navy is interested in power buoys as a possible way of supplying energy to the unmanned underwater vehicles that it uses for reconnaissance, surveying the seabed, and tracking enemy submarines. These vehicles could dock with the power buoys and replenish their batteries without any need for human intervention.

During the course of its research, however, OPT realised that it could make bigger and more powerful buoys that might be able to generate electricity commercially. It has now developed a 20kW version. Four such machines will be installed off the coast of Victoria in Australia over the next 18 months, in an experiment that connects them to the local electricity grid. A 100kW buoy is also being designed, and within two or three years OPT hopes to link large numbers of these together to build offshore power stations with outputs of between 10MW and 100MW.

Previous attempts to harness wave power have involved large and complex structures. Buoys, by comparison, are simple and, according to OPT's president, George Taylor, should last for many decades in the open sea.

Dr Taylor also believes that his buoys will be profitable without subsidy, unlike many other attempts to produce electricity from "renewable" sources. The cost of his buoys' electricity is currently around seven cents a kW-hour, but he expects this to fall to about three cents a kW-hour in commercial production, which would be competitive with conventional generators. The plant itself is relatively expensive. A 1MW power station, including buoys, anchors, power cables and onshore conversion devices, would cost $5m. That is significantly more than the cost per MW of a conventional generator. But the fuel is free, and the running costs amount largely to scraping barnacles off the buoy's bottom every so often.

Wave power generated this way could have many advantages. There would be none of the noise and visual impact of wind farms, since it would be based several kilometres offshore, and, since waves are a concentrated source of energy, "wave farms" need not be large. The buoys may also reduce shore erosion, by taking energy out of waves before they reach land. And strong enough waves are available for 90% of the time. Solar- and wind-powered generators, by contrast, work for only 20-30% of the time. This, says Dr Taylor, is why wave power is suitable for large-scale power generation, and why wave economics will beat solar and wind.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Music festivals

The sounds of summer

May 17th 2001
From The Economist print edition

A guide to this summer's best classical music festivals in Europe and America

AP

THERE are worse ways to go than at the peak of your powers, lost in a task you love. But the heart attack that carried off Giuseppe Sinopoli last month as he conducted "Aida" in Berlin came cruelly soon. He was only 54, an age when many conductors have decades of music ahead of them, and his datebook was full. Mr Sinopoli's death left a particular hole at the **Bayreuth** festival (July 25th-August 28th) in Germany, where he was due to conduct this summer's cycles of Wagner's "Der Ring des Nibelungen".

Bayreuth was the earliest modern music festival. Founded by Richard Wagner in 1872, the first "Ring" cycles were performed there in 1876 in an elevated spirit that demanded strict attention to the music, although mockers, including Mark Twain, were reminded of religious ritual: visitors to Bayreuth are still referred to as "pilgrims". After the dismal association of Wagner's works with Nazism, Bayreuth recovered much of its musical authority in the 1950s and 1960s, and led the world of opera with pathbreaking productions by Wagner's grandsons, Wieland and Wolfgang. On Wieland's death in 1966, it fell to Wolfgang to continue overseeing the yearly proceedings.

Lately, Bayreuth has come in for criticism for its inward-looking and increasingly provincial productions, and for its refusal to extend a repertoire of ten operas. A feud has broken out between Wieland's daughter Nike and Wolfgang's son Gottfried, fuelled by their respective books, now translated, "The Wagners" (Princeton; Weidenfeld) and "Twilight of the Wagners" (St Martin's). They, and other family members, have been demanding a new-look Bayreuth, but Wolfgang, now old, is resistant. The theatre seats only 1,460 and, despite the critics, all performances are almost always sold out. Apart from the "Ring", still in need of a conductor, this year's main draw is "Lohengrin", under the baton of Antonio Pappano.

Wagner's patron, "mad" King Ludwig II of Bavaria, loved opera, and the nearby **Munich** festival (June 24th-July 31st) is always worth a visit. It has something that Bayreuth can never hope to equal: the setting of a charming and sophisticated city. The big event this year is Berlioz's epic "Les Troyens", conducted by Zubin Mehta.

Over the border in Austria, the most prestigious festival of all is **Salzburg** (July 21st-August 31st), or at least it ought to be, with its glittering mixture of opera, chamber music, solo recitals and orchestral concerts. But in recent years it has become too much of a trade-fair for the music industry. The hottest ticket this summer will probably be for Verdi's "Falstaff", conducted by Lorin Maazel, with Bryn Terfel, a famous Welsh baritone, in the title role. The biggest innovation, however, is a series of programmes of American song, masterminded by Thomas Hampson, an American baritone, with two eminent sopranos, Barbara Bonney and Susan Graham. The Vienna Philharmonic will be conducted by Sir Simon Rattle, and among the repertory will be Beethoven piano concertos played by Alfred Brendel, an Austrian pianist long admired for his interpretations of the romantic masters, who is celebrating his 70th birthday this year.

Other Austrian festivals include those in **Vienna** itself (May 11th-June 18th), where "Shockheaded Peter", a cult British music-theatre work by Martyn Jacques based on "Struwwelpeter", will be at one end of the spectrum, and Luigi Nono's opera "Intolleranza", conducted by Jeffrey Tate, at the other.

Many Wagnerians will be turning their backs on Europe this summer and heading for America's west coast to hear the "Ring" in **Seattle** (August 5th-26th). Conducted by Franz Vote and produced by Stephen Wadsworth, the cast is led by Jane Eaglen as Brünnhilde and Phillip Joll as Wotan. Traditional in its designs (by Thomas Lynch and Martin Pakledinaz), this promises to be one of the most exciting events

of the festival season.

No other American festival is offering anything quite so attractive as Seattle, although **Santa Fe** (June 29th-August 25th) has a rarely heard opera by Richard Strauss, “Die Aegyptische Helena”; **Glimmerglass** (July 5th-August 28th), which is upstate New York’s answer to Glyndebourne, is staging Emmanuel Chabrier’s charming “L’Étoile”; and **San Francisco** (June 1st-July 1st) marks the centenary of Verdi’s death with “Aida”, “La Traviata” and “Simon Boccanegra”.

Indeed, there is centenary Verdi everywhere, and if you want a change from that great Italian composer and patriot—or from opera generally—the Maggio Musicale in **Florence** (May 6th-June 30th) has Roland Petit’s ballet “Proust, ou les Intermittences du Coeur”. Modern dance is also prominently featured at **Uzès** (June 16th-22nd), an ancient city in Provence in southern France. Performances will be in courtyards, gardens and squares around the old town. Among the choreographers are Michael Keegan-Dolan, Wayne McGregor and Bernard Glandier.

One of the most alluring of all festivals is that in **Aix-en-Provence** (July 6th-29th). The beautiful old city, with its tree-lined main street, imposing mansions and poetic traditions provides a wonderful backdrop for the music festival. This year the operas are Verdi’s “Falstaff”, conducted by Esa-Pekka Salonen, with Willard White in the title role; Mozart’s “Die Zauberflöte”; Britten’s “The Turn of the Screw”; and a staging of Janacek’s “Zapisnik zmizeleho” (The Diary of One Who Disappeared). More than the large events, though, it is the many chamber-music and song recitals around the city that often leave visitors with the most vivid memories.

The **Lucerne** festival (August 15th-September 15th) is held in a new lakeside theatre designed by Jean Nouvel. As composers-in-residence, it has chosen Elliott Carter, at 92 dean of American composers, and Switzerland’s Hanspeter Kyburz. Their works are featured in a series of concerts, including some by the Chicago Symphony Orchestra under Daniel Barenboim. Other Lucerne conductors are Sir Simon Rattle, William Christie, Bernard Haitink, Riccardo Chailly, Riccardo Muti and Franz Welser-Möst, who leads the Gustav Mahler Youth Orchestra in Mahler’s Eighth Symphony. The artist-in-residence is Anne-Sophie Mutter, an acclaimed violinist who will play in recital and as a concert soloist. No other festival has quite such a starry line-up.

In Britain, the long-established opera at **Glyndebourne** (May 17th-August 26th) has a mixture of new and old, including Beethoven’s “Fidelio” under Sir Simon. The **Edinburgh** festival (August 12th-September 1st), which has stage and literary events as well, has its usual mixture of well-known visitors (New York City Ballet, the Vienna Burgtheater, the Russian National Orchestra) and untried hopefuls. **Aldeburgh** (June 8th-24th), under a brilliant young composer-director, Thomas Adès, celebrates Beethoven and Shostakovich—no Verdi in sight.

Tickets for these festivals can be scarce. But at the vast Albert Hall, home of the **London Proms**, you are almost bound to get a place. The 107th season of the Henry Wood Promenades (July 20th-September 15th) offers 73 concerts, including 11 world premieres, among them new works from Sir Harrison Birtwistle, Sally Beamish and James MacMillan, as well as a rich cross-section of music from all eras. This year’s theme is “Green and Pleasant Lands”, an unlucky choice given that parts of Britain’s countryside are not yet free of foot-and-mouth disease. Musically, the pastoral theme nevertheless offers an exciting prospect, juxtaposing Handel, Haydn and Beethoven with Takemitsu, Tippett and Canteloube. The Proms will be heard on BBC live broadcasts by millions across the world. Though the rambunctious last night, with its streamers, balloons and patriotic hymns, gives a strange idea of what the Proms are about, no music festival anywhere has such an eclectic and pioneering programme.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

American history

Dear Mr President

May 17th 2001
From The Economist print edition

John Adams
By David McCullough

Simon and Schuster; 736 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

JOHN ADAMS, second president of the United States, is hardly an obscure or neglected historical figure, but he has received nothing like the attention lavished, in his own day and ever since, upon his partners in the winning of American independence: George Washington, Benjamin Franklin and Thomas Jefferson. That is one good reason for welcoming a new biography. Another is the standing of the biographer. David McCullough is widely known for his remarkable life of Harry Truman, and has also written (with much else) a deservedly acclaimed history of the Brooklyn Bridge. Any new book by him will be opened with eager confidence. Finally, every generation needs its own interpretation of the great events and individuals of history, and it is 40 years now since the last big Adams biography, by Page Smith.

Readers who take the bait will not be disappointed. It is true that the book begins awkwardly, in 1776, when Adams was already 40, and tries to correct this false step by somewhat inept flashbacks. But the author soon hits his stride and settles down to straightforward chronological narrative: we do not get lost again. It may be felt that Mr McCullough slights Adams's early life by cramming it all into one chapter, but then the life as a whole was so long—nearly 91 years—and its events were so many and so extraordinary that the problem of getting everything in, with due weight, must have been acute. The author solves it triumphantly. His plain style and warm human sympathies (which also distinguished his "Truman") carry us along easily. Adams himself does the rest.

Honest John Adams, amiable John Adams, vain John Adams: these were the labels given by his contemporaries. He was also highly intelligent, a master of the written and of the spoken word, unremittingly industrious, being possessed by the strongest possible sense of duty. He was the great parliamentarian of Congress in the years leading to independence, one of three commissioners who negotiated the peace of Paris in 1783 ending the war with Britain and subsequently a skilful American ambassador in London. As president from 1797 to 1801 Adams needed all his diplomatic experience to lead America safely through the fearful crisis of an undeclared maritime war with France. For these and many other achievements he deserves to be remembered with high praise.

Contemporaries were less kind. Unlike Washington, Adams was obliged to face the open fact of party conflict. His own Federalists looked less to him than to Alexander Hamilton, and his foes, led by Jefferson, were unfailingly hostile, particularly over the illiberal Alien and Sedition Acts, which Adams reluctantly signed.

But the fascination of Adams in 2001 rests on rather different foundations. He and his wife Abigail made one of the happiest and best recorded marriages in American history. She was as good a writer as he was, and in her calm, genial wisdom counterpoised his volatility and quick temper. Fortunately for posterity they were often apart (once for as long as four years) and wrote letters to each other which make their love and partnership still vivid and moving (it is shocking to learn that not all have yet been printed). But they also wrote equally lively letters to dozens of other people. Since, apparently, they could not manage a single dull sentence, their joint correspondence brings their time to sparkling life. Mr McCullough has had the sense to exploit this resource generously and his book bounds forward.

The life of Adams, in the end, compels reflection on human character. His most frequent correspondent, next to Abigail, was Jefferson, and Mr McCullough takes pains to show him off. But the contrast between the two men is almost painful. Adams, frank, impulsive and warm-hearted; Jefferson, reserved, self-deceiving, two-faced; at times, indeed, palpably a liar. He was brilliant, he was charming, he was treacherous; fortunately, Adams was incapable of nursing a grudge, and while seeing through Jefferson accepted his foibles. "He wished to be president and I stood in his way. So he did everything that he could to pull me down. But if I should quarrel with him for that, I might quarrel with every man I have had anything to do with in life. This is human nature." Jefferson was snow on the hills; Adams was the salt of the earth.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

British politics

Strong but themeless

May 17th 2001
From The Economist print edition

WHATEVER their merits as a spectator sport, general elections and the associated razzmatazz are not the perfect backdrop against which to make a sober assessment of a government's record in office. In Britain's election on June 7th, voters hungry for more balanced fare than the press conferences, manifestos and soundbites on offer from the contending parties could do worse than turn to one or both of these excellent studies of Tony Blair and his record in power. If the reader emerges vaguely dissatisfied, still perplexed by the nature of both the man and his ideology, that is no fault of the authors. Like all good actors—and Britain's prime minister is certainly that—Mr Blair is a politician who leaves his audience impatient to discover in the second act what the play is really all about.

Tony Blair: Prime Minister
By John Rentoul

Little, Brown; 625 pages; £20

Buy it at Amazon.co.uk

The Blair Effect: The First Blair Government, 1997-2001
Edited by Anthony Seldon

Little, Brown; 661 pages; £14.99

Buy it at Amazon.co.uk

John Rentoul's biography was first published in 1995, soon after Mr Blair became leader of the Labour Party, and has been updated to provide an exhaustive chronicle of the prime minister's first term in office. Anthony Seldon's "The Blair Effect" is a different sort of book, a compilation of essays by a variety of academic authors who dissect the government's record since the 1997 election in all areas of policy, ranging from its management of the economy to its policies on crime, culture and the constitution. As you would expect, there are many differences of interpretation and nuance. But the broad conclusion of both books is similar.

Despite his party's 18 years in opposition and his own lack of government experience, Mr Blair has been a strong prime minister, exercising a rare degree of control over his cabinet and Parliament. The flaw in his performance is that the government's work has so far appeared to lack a clear organising theme. This is plainly not for want of aspiration. Mr Blair has hinted often enough that he is conscious of walking in the footsteps of Clement Attlee and Margaret Thatcher—one the inventor of the welfare state, the other a pro-market reformer—each of whom could be said to have imposed their own post-war "settlement" (his word) on Britain. He would like to combine and transcend the best of these two achievements with a settlement of his own. The trouble is that nobody else, and perhaps not even the prime minister himself, knows for certain what such a thing would look like.

Mr Seldon concludes that in some areas of policy Mr Blair's ambitions have been checked by others. He might, for example, have moved faster towards the euro, or on his "project" to introduce voting reform and form an alliance with the Liberal Democrats, if he had not faced resistance from powerful cabinet colleagues such as Gordon Brown, the chancellor of the exchequer, and Jack Straw, the home secretary. Mr Rentoul is a mite less generous, especially on the question of the Lib-Lab project. He believes that when Mr Blair told Paddy Ashdown, then the Lib Dems' leader, about his belief in a new style of pluralist politics, this was purely presentational. "More authentically Blair", says his biographer, "is the style of stringing people along and keeping options open, while waiting to see what happens and whether anything falls into his lap."

The underlying difficulty both books identify is, simply, the lack of a philosophical compass. Mr Blair's "third way", says Mr Seldon, never translated into a practical programme for policy, in the way that Beveridge and Keynes informed the Attlee government's policy, and Friedman and Hayek the policies of the Thatcher governments. Mr Rentoul arrives at a similar verdict: four years in government, he admits, have left Mr Blair's core political beliefs surprisingly unclear.

As befits a biographer, Mr Rentoul does at least claim to have learnt much from the past four years about Mr Blair's strengths and weaknesses as a politician. He enumerates as strengths the prime minister's combination of great self-confidence with extreme caution, as well as his instinctive feel for the popular mood: an ability, as Mr Rentoul characterises it, to "reflect back the banality of the majority".

Both of these strengths might equally well be interpreted as weaknesses. Mr Rentoul accepts that a

tension exists between the “lower Blair” of percentage politics and the “higher Blair” who talks of instinct, conviction and destiny. In the first term, except for one-off (and possibly short-lived) triumphs such as Northern Ireland and Kosovo, the lower Blair almost always got the upper hand. But in the second term, Mr Rentoul thinks, Mr Blair might be willing to do much more.

That is possible. Many contributors to Mr Seldon’s volume argue that Mr Blair’s real tryst with destiny will not come until, in a second term, he leads Britain into membership of the euro and so (though this need not follow) resolves its relations with the mainland. Even then, would his place in history be as secure as those of Attlee and Lady Thatcher?

Perhaps not. Those prime ministers inherited a Britain, in 1945 and 1979, that believed itself to be in a desperate state and was ripe for radical if not desperate remedies. Mr Blair’s Britain is prosperous, content and, for all the self-regarding talk about “Cool Britannia”, relatively unadventurous. The Conservatives may be weak but the forces of conservatism are pretty strong. It is difficult in happy times to make your mark on history.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Bike messengers

Death defying

May 17th 2001
From The Economist print edition

THERE tend to be few blue-collar or no-collar memoirs. Writers, tycoons and politicians are readier to talk themselves up (or pay someone to ghost it) than taxi drivers, say, or builders. It's probably less a matter of loquacity than self-importance. Exactly where bike messengers fit in this typology isn't wholly clear. But Travis Culley's account of his days as a Chicago courier in the 1990s is a fresh addition to the genre.

The Immortal Class: Bike Messengers and the Cult of Human Power
By Travis Hugh Culley

Villard; 352 pages; $19.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Culley starts out a disaffected youth who flees drear Miami—no, it isn't all like television—to try his hand as a playwright in Chicago. Failing at the arts, he needs a day job. Soon he is scooting through Chicago's streets on a bicycle, ear to the radio dispatch, rushing packages to the city's businesses.

On the frenzied rawness of courier life, Mr Culley excels. He captures the exuberance and fear of zipping down Chicago's busy avenues, the slap of the winter wind, the shock of finding himself alive after yet another horrendous scrape with a car. In lively prose he describes the drunks in the gutter, the frazzled receptionists, and his close-knit posse of courier-pals—a lithe and handsome bunch to judge from the photographs. He has a knack for the apt metaphor: on a good run, cabs and buses become for messengers "little flags on a slalom course"; after a bad one, his mangled arms lay coiled under his body "like thick rope".

As he sped along, Mr Culley was possibly right to feel superior to deskbound types. But he has a weakness for rant and succumbs to crude, inconsistent formulae: suits v labourers, shoppers v producers, drivers v cyclists. A bike messenger's view of office life could be a wonderful book. But it would need less eye for traffic and more for people than Mr Culley shows in this slim memoir.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Japanese writing

Tokyo blues

May 17th 2001
From The Economist print edition

GIRLS who think they are lesbians. Boys who think they are in love with them. Random, anonymous couplings in pay-by-the-hour hotels. Mysterious disappearances and equally unexplained sadness, even madness—such is the gloomy psychological landscape in which Haruki Murakami sets his novels. Geographically, it is Tokyo, but it might be any of the world's vast, unforgiving cities, where people get lost like tears in the rain and finding love is sometimes as hard as solving Rubik's cube in the dark.

European and American fiction moved on from this kind of relentless nihilism, this fascination with "feelings of immeasurable emptiness"—not to mention a fixation with the Beatles—quite some time ago. But in Japan it is still popular, especially among a burgeoning new generation of so-called "freeters": young people who cannot be bothered to get a full-time job because, like Mr Murakami's latest heroine, Sumire, they can live off their parents. Translated into English and shipped back to Europe and America, this dark, if not particularly original, brew is rapidly attaining cult status in the West too.

This is not to say that the books are no good. Reading Murakami is an unsettling, disorienting experience that can leave you feeling, well, immeasurably empty. "Sputnik Sweetheart", his latest offering to appear in English, though slighter than some of its predecessors, quickly draws you in and holds you there. It delicately sketches the misery of its (bookish but drifting) narrator, K, in love unrequitedly with a (brilliant but confused) drop-out student, Sumire, who in turn unrequitedly loves the older, enigmatic Miu. It comes as no surprise that Miu is a woman.

K, whom Sumire loves but does not desire, makes do with occasional nights with the mother of one of his pupils, who doesn't even merit an initial. When the action abruptly switches to an unnamed island in the Dodecanese, we discover that disaffected Japanese urbanites are not really any happier there.

As for the title, what better metaphor for modern life, at least in Murakami-land, than solitary satellites drifting through space? Sometimes, if the author is to be believed, the orbit of one satellite will briefly intersect with another's, but then off they go, alone again. Actually, that is not the way satellite orbits work—but why should a dreary matter of fact stand in the way of a good miserabilist image? Even bleaker is the narrator's identification with Laika, the Russian dog sent into space on a Sputnik for research purposes. Is the lot of Tokyoites quite as bad as all that?

Mr Murakami has recently extended his fascination with urban dystopia into the realm of non-fiction. Also available in English is "Underground", a series of interviews with 40 people involved in the terrifying sarin gas attack on the Tokyo underground in 1995. The attack, which killed 12 people, also injured several thousand others, and many of these, as the interviews make clear, are still suffering from the after-effects.

Mr Murakami has tracked down victims who barely survived, subway staff who evacuated them, doctors who treated them and even a few members of the Aum Shinrikyo cult that carried out the atrocity, though unfortunately none of the perpetrators or organisers would talk to him. Some of those he spoke to are still members of the cult and find it impossible to condemn its leader, Shoko Asahara. Like Mr Murakami's novels, "Underground" makes for an unsettling read.

Sputnik Sweetheart
By Haruki Murakami

Knopf; 210 pages; $23. Harvill; £12.

Buy it at
Amazon.com
Amazon.co.uk

Underground: The Tokyo Gas Attack and the Japanese Psyche
By Haruki Murakami

Vintage International; 366 pages; $14. Harvill; £8.99

Buy it at
Amazon.com
Amazon.co.uk

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Literary lives

Only omit

May 17th 2001
From The Economist print edition

AS A young man, Robert Louis Stevenson (1850-94) saw himself as “lean, idle, ugly, unpopular”. A photograph shows a stick-insect sort of youth with popping eyes and a bulging forehead beside a whiskered father with a strong, even face: a familiar type of Scottish Victorian. It is hard to see the genetic connection. And, indeed, fond as they were of each other, they found it difficult to get on.

Louis: A Life of Robert Louis Stevenson
By Philip Callow

Ivan R. Dee Publisher; 336 pages; $27.50. Constable; £20

Buy it at
Amazon.com
Amazon.co.uk

Louis was the only child of Thomas and Maggie Stevenson of Edinburgh. The family was highly educated, respectable and bound by a firm Calvinism. Yet Louis was quite different from his father and grandfather, both of whom had been distinguished lighthouse engineers. From an early age he adopted a foppish, bohemian style, and in due course, having thrown over his studies in engineering and the possibility of a legal career, he became a man of letters. He is remembered now, in particular, for “Treasure Island”, “Kidnapped”, “A Child’s Garden of Verses” and “The Strange Case of Dr Jekyll and Mr Hyde”. “I wanted to write about a fellow who was two fellows,” he said of the last.

Stevenson’s short life was spent, after Edinburgh, in ceaseless journeying, purportedly for the sake of his poor health—periodically his lungs would bleed—but probably also for some ease of spirit and to escape from the fettered Presbyterianism at home. Together with his wife, Fanny, an American divorcee ten years his senior, he would up sticks almost yearly to live in, variously, London, Bournemouth, France, Switzerland, California, and, eventually, the South Seas. His increasingly eccentric household finally settled on the island of Upolu, in Samoa. Paradoxically, though, it was in the grey mists of Scotland that Stevenson penned that great tale of tropical adventure, “Treasure Island”, and on a lush South Sea island that he wrote “Catriona” and the unfinished “Weir of Hermiston”, two of his Scottish novels.

Philip Callow has drawn heavily on the vast Stevenson bibliography for this book. It is a life, he says, for the “intelligent lay reader”, and as such is more than satisfactory, though it adds little to the oft-told story. Stevenson’s life and work have divided critics, and many have tried to debunk him. Mr Callow remains an admirer, even after unpicking some of the romantic legends that have been put about. He also sticks up for Fanny, a formidable character who was never really accepted by Stevenson’s family and friends.

Unusually, a little more literary criticism would have augmented the picture, especially some appraisal of Stevenson’s chiselled, graceful style. “There is but one art, to omit!” he wrote. “Oh, if I knew how to omit I would ask no other knowledge. A man who knows how to omit would make an ‘Iliad’ of a daily paper.” How right he was, then as now.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Global capitalism

The third way (an encore)

May 17th 2001
From The Economist print edition

GLOBALISATION, it seems, is still the word of the day, both for protesters in the streets and for writers of polemical books. “Just Capital”, written by a former director-general of the Confederation of British Industry (CBI), opens, suitably enough, at the World Economic Forum in Davos, now an emblem of globalisation. Yet for the most part, it is far from polemical. Instead, Adair Turner offers a nice line in the debunking of myths.

Mr Turner begins by noting the whims of economic fashion: at least among those who think one size fits all, the Japanese way, the European social model, the Asian miracle, the Internet have all gone in and out of vogue. So, he suggests, might today’s most popular export model, the United States. Indeed, the main thesis of his book is that there is no need for Europe slavishly to ape America: it does not have to abandon social protection and its relatively high public spending in order to succeed economically. In effect, Mr Turner is suggesting that there really is a third way.

Just Capital: The Liberal Economy
By Adair Turner

Macmillan; 410 pages; £20.

Buy it at
Amazon.co.uk

The Silent Takeover
By Noreena Hertz

William Heinemann; 242 pages; £12.99

Buy it at
Amazon.com
Amazon.co.uk

The author convincingly knocks down a whole series of popular notions: that economies can be inherently uncompetitive, that free trade is bound to cut wages, that world financial markets are depriving governments of their economic control, that global competition inevitably forces down taxes, that deregulation is the only route to faster growth. This is not unfamiliar stuff: Paul Krugman, for one, has shot down many of the same targets, often in more elegant prose. Yet Mr Turner does an effective destruction job. And he argues with some of the passion of the convert: as he admits, he himself put about several of those same myths when at the CBI.

Mr Turner is undoubtedly right to argue that America’s relative outperformance has been exaggerated. Until recently European productivity growth was as good as, or better than, America’s, and much of the explanation for faster economic growth in America lies in its expanding population and lengthening working hours. He is also right that Europeans are free to choose: for instance, to tolerate more unemployment if that is the price of greater wage equality, or to maintain tougher planning controls even if they slow economic growth.

But sometimes he presents the reader with false dilemmas. The right environmental protection need not slow down an economy, for instance. There are more intelligent answers to rising inequality than to interfere with the labour market and produce needlessly high unemployment. As for Europe’s famous social model, the argument is not really between retention and abolition: it is about large reforms, which are needed for demographic as well as economic reasons. And, lastly, Mr Turner’s liberalism is a shade too corporatist, representing a belief in the marketplace only as a generator of wealth. A true 19th-century liberal—and a latter-day libertarian—would seek to justify the market in terms of freedom, not money.

Noreena Hertz, by contrast, believes that market fundamentalists are bad for freedom, because they have allowed giant multinational corporations to subvert democracy itself. Ms Hertz is a young Cambridge don who has worked as an investment banker in Russia. Hers is the latest example of an anti-globalisation book that offers to explain what protesters at big international meetings are against. Yet, despite impressive intellectual credentials and a fluent style, she has written a flawed book. She accepts too uncritically many of the myths that Mr Turner debunks and seems to assume that there has been a sudden increase in the power and freedoms of the corporate world.

But big business has always had influence over government, at times perhaps more than now. There is little evidence that its say is increasing and some that it is in decline. Many big companies are losing out to smaller ones. Union power is not everywhere in retreat. The world’s antitrust and financial regulators may face a more difficult job than before, but their authority is not obviously less than it was. As a share of national income, public spending in many places is steady or rising. Yes, there is a case for reforming

campaign finance, and more attention should be paid to economic inequality. But, as Mr Turner would surely answer Ms Hertz, trammelling the market is not likely to help.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

American spying

Getting an earful

May 17th 2001
From The Economist print edition

IT IS known in Washington, DC as No Such Agency and has neither the glamour nor the notoriety of the CIA. But the National Security Agency (NSA) has far more people, more money and, so it is widely believed, more success. In the jargon of the trade, humint (human intelligence) is considered less reliable than comint (communications intelligence) or elint (electronic intelligence). Using tens of thousands of employees, acres of state-of-the-art computers, and dozens of spy satellites and listening posts, the NSA extracts information from codes, communications and electronic transmissions.

Body of Secrets
By James Bamford

Doubleday; 734 pages; $29.95. Century; £20

Buy it at
Amazon.com
Amazon.co.uk

"Body of Secrets", which updates an excellent earlier book, adds fresh material about the world's nosiest and most secret body. (It deals also with Britain's buggers, GCHQ.) Though hardly comprehensive—Mr Bamford is not clairvoyant—this revised edition will fascinate anyone interested in the shadow war, besides shedding unusual light on familiar events.

It is intriguing to read, for example, after the recent fuss when an American spy crew was briefly held in China, how many Americans (more than 200) and how many American aircraft (at least 40) were lost over the years in spying by the United States near or over Soviet airspace.

How much commercial spying the NSA aids or abets is a much broader and more explosive issue. The suspicion is that Echelon, a global network used by NSA and GCHQ that can scrutinise millions of e-mails, telephone calls and faxes every hour, hoovers up business secrets in Europe and Japan that are then passed on to Anglo-American rivals. A committee in the European Parliament is investigating this claim. Mr Bamford has looked hard into this question, and his own conclusion is that, though business traffic is routinely overheard, the information is not misused.

But the most startling accusation in "Body of Secrets" is, oddly, not about the NSA at all. According to documents Mr Bamford has obtained, America's military chiefs of staff proposed in 1962 to foment war against Cuba. A detailed, written plan called for outrages to be committed by the United States and blamed on Fidel Castro—terrorism in Washington, DC and Miami, shootings and the sinking of refugee boats. Soon after this lurid proposal reached the secretary of defence, Robert McNamara, the chairman of the joint chiefs, Lyman Lemnitzer, was denied a second term and sent to be NATO commander in Europe.

It sounds fantastic. But Mr Bamford is a highly regarded investigative reporter with legal training. Mr McNamara, whose memory is sporadic, says he has no recollection of the matter. Perhaps the alleged plan was one option among several. Even so, such a proposal, if authentic, causes a chill. Perhaps Dr Strangelove and General Buck Turgidson were truer to life than Stanley Kubrick imagined.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Nicos Sampson

May 17th 2001
From The Economist print edition

Nicos Sampson, president of Cyprus for eight days, died on May 9th, aged 66

AS A reporter and photographer on the *Times of Cyprus*, Nicos Sampson had an impressive series of scoops. Whenever a policeman was murdered in Nicosia, the capital, Mr Sampson was among the first on the scene, and provided his newspaper with a gripping story full of detail and a grisly photograph of the victim.

AP

At this time, the 1950s, the eastern Mediterranean island was still a British possession. A militant group called EOKA was demanding *enosis*, union with Greece, one of the many countries that over the centuries has ruled Cyprus. In pursuit of its ambitions, EOKA regularly killed British policemen and sometimes civilians in Nicosia's Ledra Street, which came to be known as Murder Mile and provided Mr Sampson with his series of gruesome stories and pictures.

It did not take a Sherlock Holmes in the British security forces to suspect that Mr Sampson was a member of EOKA and involved in the killings. In 1957 he was charged with the murder of a police sergeant but was acquitted after the judge expressed doubts over a confession he was said to have made. A few months later, having been caught aiming a Sten gun at four policemen, Mr Sampson was sentenced to death, a mandatory sentence in those grim days. The sentence was commuted to life imprisonment. Mr Sampson was flown to Britain to serve his term, but was freed under an amnesty granted at the time of Cyprus's independence in 1960.

Nicos Sampson was welcomed back to Cyprus as a hero. Archbishop Makarios, the elected president of the new republic, gushingly called him "the incarnation of the spirit of Greek virtue". As well as being the head of the Greek Orthodox church in Cyprus, Makarios was a skilful politician. He had supported EOKA and *enosis* in pre-independence times. Now that the archbishop was leader of the island, he was cooling towards the idea, which was totally opposed by Cypriots of Turkish descent and Islamic faith, about a fifth of the population. Mr Sampson, though, was still fervently for *enosis*. With the British out of the way the real struggle for Cyprus began.

Time for confession

Mr Sampson's real surname was Georgiades. Why he changed it is a mystery. Perhaps he decided, naively, that people would assume he was British and could not be an EOKA gunman. He became fond of the name and kept it when he started a Greek-language newspaper called *Machi* (Combat). In it he said he had killed at least 15 policemen and civilians. According to the British, as EOKA's chief executioner he probably killed more. Worse, for the stability of independent Cyprus, Mr Sampson used his newspaper to promote *enosis*, to incite communal violence, and kept in form as a gunman by leading a gang that attacked the villages of Turkish Cypriots.

He visited Athens from time to time urging the military regime then in power to seize Cyprus. In 1974 the Greek junta did the next best thing. It backed a coup by Greek-Cypriot soldiers sympathetic to *enosis*. Archbishop Makarios was deposed as president. Nicos Sampson replaced him. The leader of the Turkish Cypriots, Rauf Denktash, said that making Mr Sampson president was like "Hitler becoming president of Israel". An exaggeration, no doubt, but such was the extent of Turkish-Cypriot loathing for him.

Turkey invaded Cyprus, saying it had to protect its kin. It had been looking for a pretext to return to the island it had ruled for 300 years before the British took over. Eventually its army occupied a third of the island and has remained there ever since despite interminable international efforts to reunite the two

sides. As a result of the division of the island some 180,000 Greek Cypriots found themselves refugees in their own country.

Mr Sampson lasted as president for eight days. The Greek junta had suddenly been replaced by a civilian government, so Mr Sampson had lost his backer. Archbishop Makarios was reinstated and Mr Sampson was put on trial for his role in the coup. He claimed to have been reluctantly pushed into accepting the presidency, which many dispute. He was sentenced to 20 years in jail but was allowed to go abroad for medical treatment. He lived in Paris for the next 11 years and ran a nightclub. When he returned to Cyprus he was granted an amnesty.

It is tempting to blame Nicos Sampson for all of Cyprus's misfortunes but a neutral observer could find other culprits. Although Britain was rapidly granting independence to many of its overseas possessions, it was reluctant to quit the island. With Gibraltar at one end and Cyprus at the other it remained a Mediterranean power. This reluctance heightened tensions among a people seeking an alternative future. Britain eventually settled for keeping two military bases on the island.

The United States was not opposed to giving the island to Greece, an enthusiastic member of NATO, and its envoys kept in friendly touch with Mr Sampson. The Americans did not care for Archbishop Makarios, who they suspected was having talks with the Soviet Union. As for Turkey, it was longing to display its manhood, and indeed invaded Cyprus very efficiently. Among the masters of realpolitik Nicos Sampson may have had no more than a small role, if a violent one.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 17th 2001
From The Economist print edition

America's Federal Reserve cut its federal funds rate by yet another half a percentage point, to 4%. Industrial output had fallen by 0.3% in April, the seventh monthly decline in a row. Playing down fears of a rekindling of inflation, the central bank's statement appeared to foreshadow another rate cut at its meeting in June. Consumer prices rose by less than expected in April—only 0.4%. Producer prices climbed moderately, though food prices jumped by 0.6%. The markets barely reacted on the day of the cut, but the Dow Jones gained 3.2%, rising above 11,000 for the first time since last September.

Britain is still growing quite strongly. Unemployment based on claimant counts slipped to 3.2%, its lowest level in 25 years. The number of jobless also dropped to a 25-year low of 975,800. Wages rose by 5.1% in the year to March (a real increase of 2.7%). But the annual increase in producer prices plunged to 0.5%, a two-year low.

Prospects for **Germany** remained dim. Retail sales fell by 0.6% in real terms in the year to March. Inflation in producer prices picked up to 4.1% in April, despite a collapse in industrial output. Consumer prices rose sharply in the **Netherlands**; year-on-year inflation in April was 4.9%, the highest since October 1982. In **France**, month-on-month inflation amounted to 0.5% in April, though the 12-month figure stayed at only 1.8%.

The Nikkei stockmarket index in **Japan** shed 2.5% on May 16th, and 2.8% over the week, after a profits warning by a top electronics manufacturer. The country's trade- and current-account surpluses narrowed in March.

Commodities

Palladium prices have plunged by 42% from their record level of $1,094 an ounce in January. Thanks to disruptions to shipments from Russia, which supplies two-thirds of the market, prices doubled in 2000. Johnson Matthey, a refiner, says that although manufacturers used 24% more palladium in catalytic converters for cars and trucks last year, purchases by the motor industry fell by 4% as companies ran down stocks. However, the car industry's demand for platinum (a sister metal) rebounded by 14% after a three-year decline, pushing prices to 13-year highs. Demand for platinum will rise again this year, as manufacturers switch away from palladium. New mine production coming onstream should balance the market.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

May 17th 2001
From The Economist print edition

Output, demand and jobs

% change at annual rate

	GDP		The Economist poll GDP forecasts		Industrial production	Retail sales (volume)	Unemployment % rate	
	1 qtr	1 year	2001	2002	1 year	1 year	latest	year ago
Australia	− 2.2	+ 2.1 Q4	+ 2.1	+ 4.0	+ 3.1 Q4*	+ 3.0 Q1	6.8 Apr	6.6
Austria	+ 1.7	+ 2.6 Q4	+ 2.2	+ 2.5	+ 7.0 Feb*	+ 4.9 Jan	3.7 Mar	3.9
Belgium	+ 4.9	+ 3.1 Q4	+ 2.6	+ 2.6	+ 5.7 Mar*	− 2.8 Feb	10.2 Apr*	10.5
Britain	+ 1.4	+ 2.5 Q1	+ 2.3	+ 2.8	− 0.1 Mar	+ 5.9 Apr	5.1 Mar‡	5.8
Canada	+ 2.6	+ 4.0 Q4	+ 2.1	+ 3.2	+ 1.5 Feb	+ 3.5 Feb	7.0 Apr	6.8
Denmark	+ 4.9	+ 1.1 Q4	+ 1.9	+ 2.2	+ 5.2 Mar	− 0.6 Feb	5.4 Mar	5.3
France	+ 4.0	+ 3.0 Q4	+ 2.6	+ 2.7	+ 1.9 Mar	+ 0.1 Feb	8.7 Mar	10.0
Germany	+ 0.8	+ 1.9 Q4	+ 1.9	+ 2.5	+ 1.4 Mar	− 0.6 Mar	9.3 Apr	9.6
Italy	+ 2.8	+ 2.3 Q1	+ 2.2	+ 2.4	− 0.3 Mar	− 0.5 Feb	9.9 Jan	11.2
Japan	+ 3.0	+ 2.8 Q4	+ 0.6	+ 1.3	− 2.9 Mar	+ 1.8 Jan	4.7 Mar	4.8
Netherlands	+ 3.8	+ 2.8 Q4	+ 2.8	+ 2.9	+ 2.0 Mar	+ 2.5 Jan	2.0 Apr§	2.7
Spain	+ 2.9	+ 3.7 Q4	+ 2.8	+ 3.1	− 3.7 Mar	na	13.5 Mar	14.8
Sweden	+ 2.4	+ 2.6 Q4	+ 2.6	+ 2.9	+ 6.2 Feb	+ 2.3 Mar	3.9 Mar*	5.1
Switzerland	+ 1.8	+ 2.5 Q4	+ 1.9	+ 2.2	+ 5.0 Q4*	− 0.6 Feb	1.8 Mar*	2.3
United States	+ 2.0	+ 2.7 Q1	+ 1.5	+ 3.0	− 1.0 Apr	+ 1.8 Mar	4.5 Apr	4.0
Euro area	+ 2.8	+ 3.0 Q4	+ 2.3	+ 2.6	+ 3.8 Feb	+ 1.2 Feb	8.4 Mar	9.2
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Finland	+ 3.0	+ 5.5 Q4	na	na	+ 7.0 Mar	+ 3.8 Jan	9.6 Mar*	11.2
Greece	na	+ 2.5 2000	na	na	+ 1.9 Dec	+ 6.0 Nov	na	na
Iceland	na	+ 4.4 1999	na	na	+ 4.2 1999	na	1.3 Jan	1.5
Ireland	na	+11.0 Q3	na	na	+38.6 Mar*	+ 4.0 Feb	3.6 Mar	4.3
Luxembourg	na	+ 8.5 2000	na	na	+ 0.2 Feb*	+ 9.4 Nov	2.6 Mar	2.7
New Zealand	+ 2.2	+ 1.6 Q4	na	na	+ 0.9 Q4*	+ 7.3 Q4	5.6 Q4	6.3
Norway	+ 0.2	+ 0.9 Q4	na	na	− 2.8 Mar	+ 0.8 Mar	3.7 Q1	3.9
Portugal	+ 2.2	+ 3.4 Q4	na	na	+ 6.0 Mar*	+ 4.6 Jan	3.8 Q4	4.1

*Not seasonally adjusted.. ‡Jan-Mar; claimant count rate 3.2% in April. §Feb-Apr.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

May 17th 2001
From The Economist print edition

Prices and wages

% change at annual rate

	Consumer prices*			The Economist poll consumer prices forecast		Producer prices*			Wages/earnings		
	1 year		year ago	2001	2002	1 year		year ago	1 year		year ago
Australia	+ 6.0	Q1	+ 2.8	+ 3.6	+ 2.3	+ 5.2	Q1	+ 5.6	+ 5.1	Q4	+ 1.6
Austria	+ 2.9	Apr	+ 1.9	+ 1.8	+ 1.4	+ 2.9	Apr	+ 2.6	+ 2.5	Mar	+ 2.1
Belgium	+ 2.8	Apr	+ 2.0	+ 1.9	+ 1.7	+ 4.3	Feb	+ 7.9	+ 1.9	Q1	+ 3.3
Britain	+ 1.8	Apr	+ 3.0	+ 1.9	+ 2.3	+ 0.5	Apr	+ 2.3	+ 5.1	Mar	+ 5.7
Canada	+ 2.5	Mar	+ 3.0	+ 2.3	+ 2.1	+ 2.4	Mar	+ 5.8	− 0.9	Feb	+ 2.8
Denmark	+ 2.7	Apr	+ 3.1	+ 2.2	+ 2.2	+ 3.6	Apr	+ 5.7	+ 3.8	Q4	+ 4.1
France	+ 1.8	Apr	+ 1.3	+ 1.3	+ 1.4	+ 2.8	Mar	+ 4.5	+ 5.0	Q4	+ 3.4
Germany	+ 2.9	Apr	+ 1.5	+ 2.0	+ 1.4	+ 4.1	Apr	+ 4.4	+ 2.3	Feb*	+ 1.5
Italy	+ 3.1	Apr	+ 2.3	+ 2.4	+ 1.9	+ 4.1	Mar	+ 5.5	+ 2.0	Mar*	+ 2.1
Japan	− 0.4	Mar	− 0.5	− 0.4	− 0.3	+ 1.3	Apr	− 0.4	+ 0.5	Mar	+ 2.1
Netherlands	+ 4.9	Apr	+ 2.1	+ 3.9	+ 2.2	+ 5.1	Mar	+ 8.0	+ 2.9	Mar	+ 3.4
Spain	+ 4.0	Apr	+ 3.0	+ 3.1	+ 2.6	+ 3.2	Mar	+ 5.7	+ 2.2	Q4	+ 2.4
Sweden	+ 2.8	Apr	+ 1.1	+ 1.7	+ 1.7	+ 2.6	Mar	+ 4.1	+ 1.5	Feb*	+ 3.4
Switzerland	+ 1.2	Apr	+ 1.4	+ 1.2	+ 1.2	+ 0.9	Apr	+ 2.8	+ 0.2	1999	+ 0.7
United States	+ 3.3	Apr	+ 3.1	+ 2.9	+ 2.3	+ 3.7	Apr	+ 3.6	+ 4.3	Apr	+ 3.8
Euro area	+ 2.9	Apr	+ 1.9	+ 2.1	+ 1.6	+ 4.1	Mar	+ 4.9	+ 2.4	Q4	+ 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 3.0	Apr	+ 2.7	na	na	+ 3.2	Mar	+ 8.2	+ 4.3	Q4*	+ 3.5
Greece	+ 3.0	Mar	+ 3.1	na	na	+ 4.8	Feb	+ 7.2	na		na
Iceland	+ 5.5	May	+ 5.9	na	na	+ 4.2	April	+ 3.7	+ 9.2	Mar	+ 4.6
Ireland	+ 5.6	Apr	+ 4.9	na	na	+ 3.1	Mar	+ 5.2	+ 7.4	Q3*	+ 6.6
Luxembourg	+ 2.8	Apr	+ 2.7	na	na	+ 4.2	Feb	+ 2.0	+ 8.4	Oct*	+ 1.7
New Zealand	+ 3.1	Q1	+ 1.5	na	na	+10.2	Q4	+ 2.8	+ 1.6	Q4	+ 1.5
Norway	+ 3.8	Apr	+ 2.6	na	na	− 0.1	Mar	+ 8.4	+ 4.3	Q4*	+ 4.0
Portugal	+ 4.5	Apr	+ 2.1	na	na	+ 4.7	Mar	+18.6	+ 2.2	Feb*	+ 2.8

*Not seasonally adjusted.

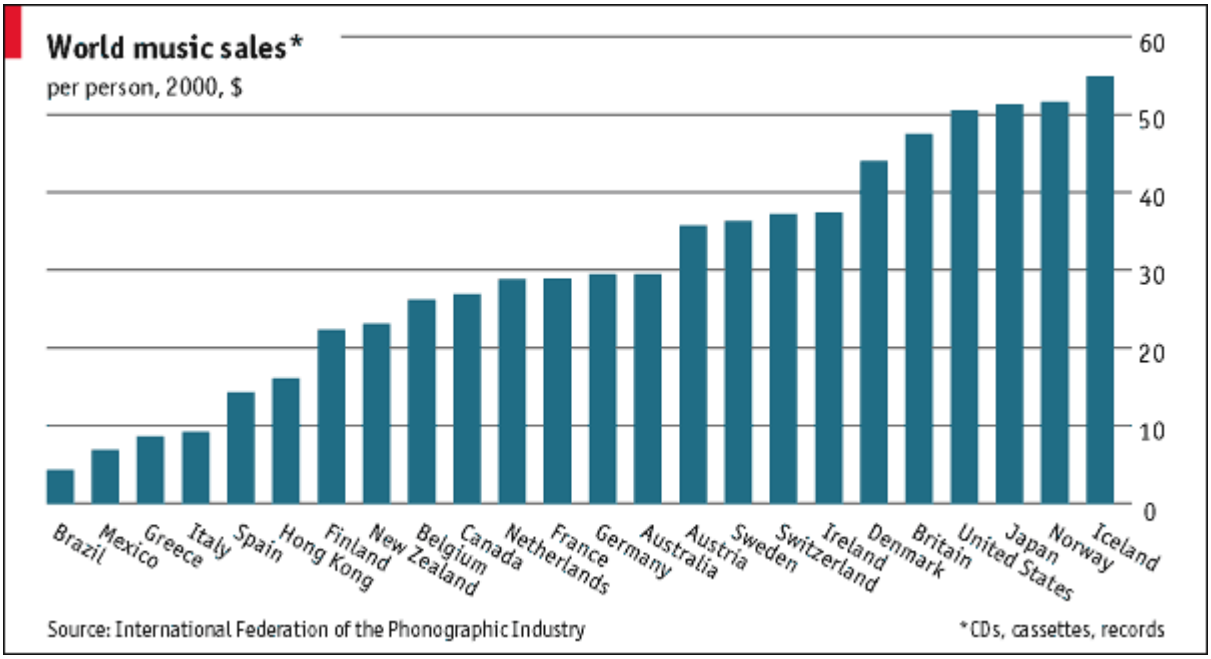
Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

World music sales

May 17th 2001
From The Economist print edition

The world's trade in recorded music was worth $36.9 billion in 2000. The number of units sold dropped by 1.2%, as falling sales of cassettes and singles outweighed growth in compact discs. America is the single biggest market, with 38% of world turnover, but Icelanders continue to be the keenest listeners, ranked by sales per head.

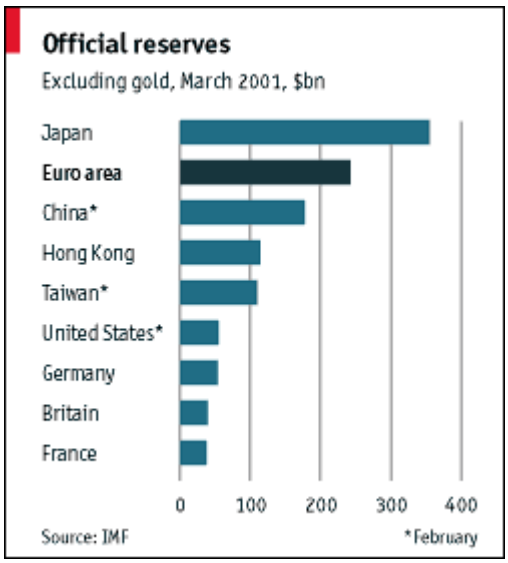


Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Official reserves

May 17th 2001
From The Economist print edition

Japan's official reserves are the world's largest. In March their market value—including foreign currency, special drawing rights and reserve positions at the IMF—was $355 billion.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

May 17th 2001
From The Economist print edition

The Economist commodity price index

1995=100

	May 8th	May 15th*	% change on one month	% change on one year
Dollar index				
All items	71.6	71.5	+ 2.9	– 5.1
Food	68.5	68.6	+ 2.1	– 7.1
Industrials				
All	75.7	75.3	+ 4.1	– 2.5
Nfa†	74.4	74.8	+ 6.6	+ 3.8
Metals	76.8	75.8	+ 2.1	– 7.2
Sterling index				
All items	78.8	79.3	+ 3.7	– 0.1
Euro index				
All items	106.3	107.0	+ 3.4	– 2.2
Yen index				
All items	92.8	93.8	+ 2.6	+ 6.7
Gold				
$ per oz	265.35	267.35	+ 2.5	– 3.2
West Texas Intermediate				
$ per barrel	27.63	28.84	+ 3.8	– 3.0

* Provisional. † Non-food agriculturals.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

May 17th 2001
From The Economist print edition

Stockmarkets

Market indices

	May 16th	2001 high	2001 low	% change on one week	% change on record high	% change on Dec 31st 2000 in local currency	% change on Dec 31st 2000 in $ terms
Australia (All Ordinaries)	3,316.8	3,326.6	3,094.3	+ 0.9	– 0.4	+ 5.1	– 1.3
Austria (ATX)	1,197.1	1,220.9	1,052.2	+ 0.1	–31.1	+11.5	+ 5.1
Belgium (Bel 20)	2,781.5	3,030.4	2,591.6	+ 0.1	–24.5	– 8.0	–13.4
Britain (FTSE 100)	5,884.0	6,334.5	5,314.8	– 0.2	–15.1	– 5.4	– 9.5
Canada (Toronto Composite)	8,146.0	9,348.4	7,415.5	+ 0.9	–28.5	– 8.8	–11.1
Denmark (Copenhagen SE)	884.2	1,002.1	818.3	+ 0.1	–14.9	– 2.5	– 8.2
France (SBF 250)	3,542.0	3,820.2	3,107.9	+ 0.5	–19.3	– 6.1	–11.5
(CAC 40)	5,522.7	5,998.5	4,824.8	+ 0.6	–20.2	– 6.8	–12.2
Germany (Xetra DAX)	6,148.4	6,795.1	5,388.0	+ 1.4	–23.8	– 4.4	–10.0
Italy (BCI)	1,733.5	1,948.4	1,609.6	– 0.1	–20.6	– 9.5	–14.8
Japan (Nikkei 225)	13,694.3	14,529.4	11,819.7	– 2.8	–64.8	– 0.7	– 8.2
(Topix)	1,357.0	1,441.0	1,162.0	– 2.5	–53.0	+ 5.7	– 2.3
Netherlands (EOE)	585.9	642.3	518.3	+ 1.5	–16.5	– 8.1	–13.5
Spain (Madrid SE)	922.0	963.9	818.6	– 0.5	–19.6	+ 4.7	– 1.4
Sweden (Affarsvarlden Gen)	246.0	292.7	217.2	+ 0.0	–38.5	–11.3	–18.5
Switzerland (Swiss Market)	7,568.3	8,135.4	6,574.0	+ 2.6	–10.0	– 7.0	–13.0
United States (DJIA)	11,215.9	11,215.9	9,389.5	+ 3.2	– 4.3	+ 4.0	+ 4.0
(S&P 500)	1,285.0	1,373.7	1,103.3	+ 2.4	–15.9	– 2.7	– 2.7
(Nasdaq Comp)	2,166.4	2,859.2	1,638.8	+ 0.5	–57.1	–12.3	–12.3
Europe (FTSE Eurotop 300) *	1,445.3	1,545.5	1,279.0	+ 0.9	–15.2	– 5.8	–11.2
Euro area (FTSE Ebloc 100) *	1,305.3	1,404.1	1,143.9	+ 0.8	–15.8	– 6.2	–11.7
World (MSCI) †	1,148.9	1,249.2	1,014.6	+ 1.0	–20.7	na	– 6.5
World bond market (Salomon) ‡	429.4	447.8	427.5	– 0.8	– 6.6	na	– 3.3

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in dollar terms. ‡Salomon Smith Barney World Government Bond Index, total return, in dollar terms.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

May 17th 2001
From The Economist print edition

Trade, exchange rates and budgets

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2001	Current account The Economist poll % of GDP, forecast 2002	Exchange rate trade-weighted† May 16th	Exchange rate trade-weighted† year ago	Currency units per $ May 16th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2001‡
Australia	− 2.7 Mar	− 15.1 Q4	− 2.9	− 3.2	73.3	75.6	1.92	1.76	2.74	1.69	1.55	0.1
Austria	− 4.6 Jan	− 4.7 Feb	− 2.5	− 2.0	100.2	99.4	15.6	15.4	22.2	13.8	12.6	-0.6
Belgium	+ 12.8 Mar	+ 11.6 Dec	+ 4.2	+ 4.3	98.8	97.9	45.6	45.3	65.2	40.3	36.9	0.7
Britain	− 43.3 Feb	− 24.5 Q4	− 2.1	− 2.0	106.1	108.6	0.70	0.67	–	0.62	0.57	1.2
Canada	+ 39.3 Feb	+ 12.7 Q4	+ 1.2	+ 1.0	78.2	79.7	1.54	1.50	2.20	1.36	1.25	2.6
Denmark	+ 5.5 Feb	+ 3.6 Feb	+ 1.4	+ 1.4	101.5	99.5	8.44	8.37	12.1	7.46	6.83	2.9
France	+ 0.9 Mar	+ 25.0 Feb	+ 1.6	+ 1.6	101.4	100.5	7.42	7.36	10.6	6.56	6.00	-0.5
Germany	+ 54.4 Mar	− 25.7 Mar	− 1.4	− 1.1	98.4	97.0	2.21	2.19	3.16	1.96	1.79	-1.7
Italy	+ 1.6 Feb	− 5.6 Feb	− 0.3	nil	72.4	71.7	2,190	2,173	3,130	1,936	1,771	-1.3
Japan	+105.7 Mar	+110.5 Mar	+ 2.2	+ 2.2	136.9	153.2	124	109	177	109	–	-6.3
Netherlands	+ 16.0 Feb	+ 13.7 Q4	+ 4.1	+ 4.0	97.7	96.6	2.49	2.47	3.56	2.20	2.02	1.3
Spain	− 39.5 Feb	− 16.9 Jan	− 2.9	− 2.6	74.1	73.4	188	187	269	166	152	nil
Sweden	+ 11.0 Mar	+ 5.5 Mar	+ 2.3	+ 2.2	76.8	84.4	10.27	9.20	14.7	9.08	8.30	3.6
Switzerland	− 0.5 Mar	+ 31.1 Q4	+11.8	+11.4	107.4	105.0	1.73	1.74	2.48	1.53	1.40	na
United States	−453.9 Feb	−434.9 Q4	− 4.3	− 4.0	119.5	113.3	–	–	1.43	0.88	0.81	2.1
Euro area	− 9.7 Feb	− 28.9 Feb	− 0.3	− 0.1	78.3	76.9	1.13	1.12	1.62	–	0.91	-0.6
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 13.3 Mar	+ 9.7 Mar	na	na	77.9	75.9	6.73	6.67	9.62	5.95	5.44	5.3
Greece	− 7.5 Q4	− 8.1 Dec	na	na	57.4	57.5	385	378	550	340	311	nil
Iceland	− 0.5 Mar	− 0.9 Q4	na	na	na	na	97.1	77.3	139	85.8	78.5	2.4
Ireland	+ 27.1 Feb	− 0.7 Q4	na	na	87.0	86.5	1.12	0.88	1.60	0.99	0.91	4.5
Luxembourg	− 2.4 Jan	+ 1.6 Q4	na	na	98.8	97.9	45.6	45.3	65.2	40.3	36.9	3.6
New Zealand	− 0.4 Mar	− 2.7 Q4	na	na	80.5	83.1	2.36	2.17	3.38	2.09	1.91	1.0
Norway	+ 27.5 Apr	+ 23.0 Feb	na	na	94.9	90.9	9.11	9.16	13.0	8.06	7.37	15.3
Portugal	− 14.7 Jan	− 10.2 Feb	na	na	89.2	88.3	227	225	324	201	183	-1.2

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †1990=100, Bank of England. ‡OECD estimate.

Text refers only to the first 16 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

May 17th 2001
From The Economist print edition

Money and interest rates

	Money supply* % change on year ago			Interest rates % p.a. (May 16th 2001)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+14.1	+ 7.5	Mar	4.88	6.39	4.83	6.10	6.44	7.40
Britain	+ 8.4	+ 8.4	Mar	5.16	6.25	4.99	5.02	5.42	6.58
Canada	+12.9	+ 5.6	Mar	4.28	5.72	4.79	5.96	6.24	7.20
Denmark	– 2.2	– 6.5	Mar	4.95	4.66	4.85	5.30	5.73	7.17
Japan	+ 6.0	+ 2.7	Apr	0.02	0.03	0.02	1.28	1.75	0.56
Sweden	+ 5.0	+ 1.4	Mar	3.98	3.91	4.46	5.24	5.13	5.32
Switzerland	– 3.9	+ 1.1	Mar	3.12	3.20	3.07	3.40	4.04	4.17
United States	– 0.1	+10.4	Apr	3.95	6.74	4.23	5.45	6.47	7.30
Euro area†	+ 2.1	+ 5.0	Mar	4.56	4.44	4.30	5.01	5.38	5.59

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 5.89%, Japan No.229 1.25%. Central bank rates: US fed funds 4.00%, ECB refinancing 4.50%, BOJ overnight call 0.01%, BOE repo 5.25%.
Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, OM Fixed Income Exchange, Warburg Dillon Read, WEFA Group, Westpac, Thomson Financial Datastream. Rates cannot be construed as banks' offers.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

May 17th 2001
From The Economist print edition

In 2000 **China** chalked up its seventh consecutive year of current-account surplus; last year's figure was $20.5 billion. In the year to April, the surplus was $22.5 billion, slightly less than in the year to March. Year-on-year industrial production jumped by 11.5% in April, but consumer-price inflation remained low, at just 1.6%.

Latin America's two biggest economies reported disappointing figures for GDP growth in the year to the first quarter. Expansion in **Mexico** declined to a measly 1.9%, down from 5.1% in the year to the first quarter. **Brazil** had a smaller fall, managing to grow by 3.8%.

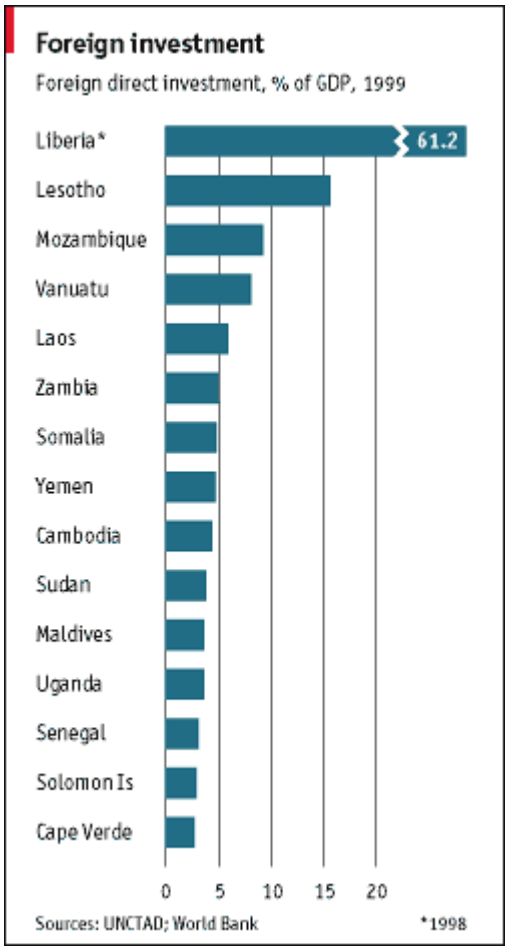
A suspected manipulation of a single share in **Thailand** pushed Bangkok down by 3.7%. Bombay shot up by 6.1% as news that the government of **India** might slash the number of drugs subject to price control lifted pharmaceutical shares.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Foreign investments

May 17th 2001
From The Economist print edition

A report by the United Nations Conference on Trade and Development shows that the 49 poorest economies received only 0.5% of global foreign direct investment in 1999. But their FDI inflows have risen nearly ninefold since 1990.



Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Financial markets

May 17th 2001
From The Economist print edition

Financial markets

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	May 16th		Dec 31st 2000	
	May 16th	year ago	May 16th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	11.8	na	2,293.3	+3.0	+4.6	+4.6
Hong Kong	7.80	7.79	11.1	3.81	13,336.0	−1.8	−11.7	−11.7
India	46.9	44.0	67.1	7.37	3,592.1	+6.1	−9.6	−10.0
Indonesia	11,408	8,425	16,307	16.28	376.2	+1.1	−9.6	−23.4
Malaysia	3.80	3.80	5.43	3.30	565.2	−1.4	−16.8	−16.8
Philippines	50.2	41.7	71.7	11.06	1,461.8	+1.4	−2.2	−2.5
Singapore	1.81	1.73	2.59	2.25	1,656.7	−1.5	−14.0	−17.7
South Korea	1,309	1,115	1,871	5.88	572.4	−1.1	+13.4	+9.6
Taiwan	33.0	30.7	47.1	4.40	5,082.0	−2.9	+7.1	+7.6
Thailand	45.3	39.4	64.8	2.50	300.3	−3.7	+11.5	+6.7
Argentina	1.00	1.00	1.43	12.48	429.7	−0.4	+3.1	+2.9
Brazil	2.32	1.83	3.31	16.28	14,714.3	−0.4	−5.7	−20.6
Chile	605	521	865	3.48*	5,216.8	+1.1	+7.1	+1.5
Colombia	2,379	2,050	3,401	12.67	861.3	+1.3	+20.8	+13.6
Mexico	9.16	9.55	13.1	12.61	6,034.0	−1.2	+6.8	+12.0
Peru	3.60	3.50	5.2	14.25	1,264.5	+2.7	+4.6	+2.4
Venezuela	714	680	1,021	12.44	7,718.5	+4.0	+13.6	+11.3
Egypt	3.88	3.44	5.55	9.09	6,551.2	+1.9	−14.5	−14.3
Israel	4.14	4.15	5.92	5.20	410.3	−0.7	−17.0	−19.1
South Africa	7.99	7.11	11.4	10.70	9,276.2	+3.9	+11.4	+5.6
Turkey	1,123,500	622,070	1,606,043	67.00	12,298.7	+0.2	+30.3	−22.2
Czech Republic	38.8	41.2	55.5	5.03	413.3	+0.4	−13.6	−16.3
Hungary	293	290	418	11.15	6,744.0	−1.9	−14.1	−17.1
Poland	4.0	4.5	5.7	17.39	14,854.7	+1.5	−16.8	−13.4
Russia	29.1	28.4	41.6	25.00	192.1†	−1.5	+36.0	+34.0
EMF (MSCI)‡	1.00	1.00	1.43	na	323.2	−1.6	−3.2	−3.2
EMBI+§	1.00	1.00	1.43	na	207.9	nil	+3.0	+3.0

*Inflation adjusted. †In dollar terms. ‡Emerging Markets Free. §J.P. Morgan Chase's Emerging Markets Bond Index Plus.

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.

Economy

May 17th 2001
From The Economist print edition

Economy

	% change on year earlier						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 8.1	Q1	+11.5	Apr	+ 1.6	Apr	+22.5	Apr	+20.5	2000	178.0	Feb
Hong Kong	+ 6.8	Q4	– 0.2	Q4	– 1.3	Mar	–11.6	Mar	+ 8.8	Q4	114.6	Mar
India	+ 6.0	Q2	+ 0.6	Feb	+ 2.5	Mar	– 6.3	Mar	– 5.4	Q4	39.5	Mar
Indonesia	+ 5.2	Q4	+ 4.5	Q4‡	+10.5	Apr	+26.9	Mar	+ 5.5	Q3	22.3	Feb
Malaysia	+ 6.5	Q4	+ 0.5	Mar	+ 1.6	Apr	+15.3	Mar	+ 9.7	Q3	26.8	Mar
Philippines	+ 3.6	Q4	– 3.0	Feb	+ 6.7	Apr	+ 7.2	Feb	+ 9.4	Jan	12.2	Feb
Singapore	+ 4.6	Q1	+ 6.4	Mar	+ 1.7	Mar	+ 3.8	Mar	+21.8	Q4	80.2	Feb
South Korea	+ 4.6	Q4	+ 6.2	Mar	+ 5.3	Apr	+14.4	Apr	+12.8	Mar	94.4	Mar
Taiwan	+ 4.1	Q4	– 4.4	Mar	+ 0.3	Apr	+10.6	Apr	+ 9.6	Q4	110.1	Feb
Thailand	+ 3.1	Q4	– 1.8	Mar	+ 2.6	Apr	+ 3.7	Mar	+ 7.3	Mar	31.7	Mar
Argentina	– 2.0	Q4	+ 0.5	Mar	– 0.2	Apr	+ 1.5	Mar	– 9.4	Q4	21.9	Mar
Brazil	+ 3.8	Q1	+ 7.7	Mar	+ 7.1	Apr	– 1.4	Apr	–27.0	Mar	35.1	Feb
Chile	+ 4.5	Q4	– 1.7	Mar	+ 3.5	Apr	+ 1.1	Mar	– 1.0	Q4	14.5	Mar
Colombia	+ 2.1	Q4	+ 3.0	Mar	+ 8.0	Apr	+ 1.3	Feb	– 0.1	Q4	9.3	Mar
Mexico	+ 1.9	Q1	– 1.9	Mar	+ 7.1	Apr	– 9.0	Mar	–17.7	Q4	40.2	Mar
Peru	– 3.6	Mar	– 6.3	Mar	+ 2.7	Apr	– 0.4	Mar	– 1.7	Q4	8.2	Feb
Venezuela	+ 5.6	Q4	na		+12.1	Apr	+ 7.2	Nov	+13.4	Q4	12.0	Mar
Egypt	+ 6.5	2000†	+ 9.4	2000†	+ 2.4	Mar	–10.4	Q4	– 0.8	Q4	12.9	Jan
Israel	+ 3.0	Q4	+ 0.3	Feb	+ 1.2	Apr	– 7.5	Apr	– 0.7	Q3	23.6	Apr
South Africa	+ 3.3	Q4	+ 1.8	Mar	+ 6.5	Apr	+ 3.6	Mar	– 0.5	Q4	6.2	Feb
Turkey	+ 8.3	Q4	– 7.6	Mar	+48.3	Apr	–27.0	Feb	– 9.4	Feb	18.6	Mar
Czech Republic	+ 3.9	Q4	+ 9.8	Mar	+ 4.6	Apr	– 3.5	Mar	– 2.3	Q4	12.8	Mar
Hungary	+ 4.2	Q4	+ 5.3	Mar	+10.3	Apr	– 2.4	Mar	– 1.7	Mar	11.3	Apr
Poland	+ 2.4	Q4	+ 2.8	Mar	+ 6.6	Apr	–10.3	Mar	– 9.0	Mar	27.1	Mar
Russia	+ 6.8	Q4	+ 3.6	Mar	+25.0	Apr	+60.9	Mar	+46.4	Q4	25.9	Mar
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Pakistan	+ 3.9	1999†	+ 7.9	Oct	+ 4.2	Mar	– 1.7	Apr	– 2.5	1999	1.1	Jan
Saudi Arabia	+ 0.4	1999	na		– 1.3	Dec	+24.9	1999	+ 0.4	1999	17.1	Jan

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Text refers only to the first 25 countries listed

Copyright © 2007 The Economist Newspaper and The Economist Group. All rights reserved.